

New Fashions in Farm Finance

By FORREST CRISSEY

Banker Must Get Close to Farmer Who Needs Influence of Steady Hand to Offset Incongruous Alliances. Teaching Farmers Sound Economics. Banker and the Demagogue Competitors. Farm Legislation a la Carte. Problems Are Changing.

THE American farmer is the most conspicuous figure in the economic landscape. He looms above the surrounding scenery like a silo on the skyline. The film favorite who could command the attention today lavished upon the farmer would have a colossal fortune within easy grasp. And the bankers of the country are making their observations of the farmer from the close vantage point of "bald head row," so to speak.

In a certain sense the bankers have always recognized the farmer as one of their major responsibilities—as the original source of all industrial and commercial prosperity. But now the most alert bankers are awakening to the fact that a marked change has come over the American farmer and that bankers who fail to keep abreast of the new fashions in farm finance are in danger of losing their place in the lead of the procession. The bigger the banker the clearer is his recognition of the fact that this change implies new responsibilities and new adjustments.

Several startling occurrences have conspired to emphasize to the banking fraternity the profound nature of this change. One is the election to a seat in the United States Senate of a "dirt" farmer—born of "poor but honest parents" in an Old World country—whose bellowing voice has already waked the echoes in Wall Street. What he may prove to be as Senator in Congress is for the future to unfold—but as a farmer he is real! Another commonwealth has sent to the United States Senate another man who is at least a near-farmer. Anyhow, he is as near to being a farmer as the "walking delegate" is to being a worker. He carries a card in the union and his vocal

labors in behalf of the farmer are unsparring and incessant. If words were counted as units of production, his organization would be in position to fine him for over-production.

Must Understand Farmer

ALL this indicates that the farmers of America are out for a full and free hearing in all the places where laws are made and where public opinion is shaped; apparently they are profoundly dissatisfied with the sort of representation which they have had in the past and consider that, to all intents and purposes, they have been virtually inarticulate in the past. The fact that their new-found voices sound to most thoughtful men like thoroughbred sirens—of the sea-going sort which lured susceptible mariners to destruction—carries small consolation, but rather a real thrill of alarm. These upheavals in American politics will cause the hard-headed student of affairs—in banks and out of them—to "Stop, Look and Listen" and to make a serious attempt to understand what the noise is all about and what should be done about it.

Because most of this new noise is directed against the bankers, as the custodians of capital, and against the present banking system as the tool of capitalism, the banker is not left in doubt as to who is named in the indictment. It is up to him to "accept service," enter his appearance in court and defend his cause. It is a poor time for the banker to sleep on his rights. All the issues must be met. The main problem, from the bankers' viewpoint, seems to be to reduce, through precautionary measures, the amount of the damage in store for them.

The most profound change on the part of the great body of farmers appears to me to be an awakening to the fact that producing food supplies is only a part of the farmer's job; that the successful marketing of his products and the successful financing of his operations is a mighty important part of his task—and one which he has too long left almost entirely to others.

In short, the new farmer attitude is that farming is not an occupation, but a business, an industry, and that it demands as much intelligence in its marketing and financial phases as any important business demands.

For quite a while the farmer has been paying strict attention to this line of thought—and an overwhelming burden of evidence indicates that he is going to hold fast to this line for a long time to come. That's farmer nature; he's a sticker and a stayer. It takes him quite a long time to become saturated with a new idea—but when he does, he retains that idea with the tenacity of a bulldog.

Any attempt to get a practical firing range on the present-day farmer and his problems without taking the human nature element into consideration is bound to be as futile as an attempt to do a general banking business without taking the element of "moral risk" into consideration. Disregarding the human nature element is where most efficiency engineers, many business economists, and some bankers fall down.

Not many years ago every farmer was a Robinson Crusoe—he worked alone, thought alone and acted alone. He was the rankest individualist in captivity. It was almost an article of faith with him to distrust not only men in other callings, but farmers as

well. As raw material for organization and cooperation work he looked to be about zero. The result was that he was easy for both conscious and unconscious exploitation. Individuals and organizations whose selfish interests moved them to seek an advantage over the farmer were virtually in the position of pitting themselves against a single, individual farmer—for the simple reason that there was virtually no cohesion among farmers, no organization, no cooperation.

But the Robinson Crusoe days are over for the farmer. His "splendid isolation" is at an end. He has abandoned his haughty individualism and his individualistic suspicion, has organized the farming industry into a machine which works about as smoothly as any labor union or federation. Once he did not care to have anyone tell him anything, thank you! Now—collectively—he hires the best legal and economic talent in the country to tell him what to do and what not to do.

In a word, the American farmer is fast becoming about the best imitator of Big Business in the whole country. He is learning quite rapidly that "in union there is strength." The co-operative idea has a strong hold on him. As a devotee of organization he has all the ardor of a new convert. Also he has the advantage of special privileges in playing the game of combination. Perhaps because of the great number of farm votes in the country, the law-makers have allowed him long rope in the matters of combination. Anyhow, he enjoys several important immunities from the application of the Sherman Law—with its dread shibboleth "combination in restraint of trade."

He has lately learned a lot about the advantages of political combination. The farm bloc in Congress is a going business concern which has to be reckoned with by every national legislator. It contains some of the soundest business brains in the country as well as some of the noisiest. It has its keen, constructive Sidney Andersons as well as its vocal Magnus Johnsons.

In the old days the banker's relations were largely with the merchant, the manufacturer and the "business man," at least so far as loans were concerned. Commerce and industry were the main patrons at the discount window. Inevitably, as a matter of self-protection, the banker became a close student of commercial and industrial conditions. But of late years, agriculture has haunted the discount window. Also the number of small country banks has increased. This has implied a constant increase in direct banking contact with the farmer. A very large proportion of bankers have given the farmer's problems as much studious attention as those of the merchant, the manufacturer and the town business man; but some have not.

The farmer never needed the touch of a steady hand more than he does today. And the banker is in strategic position to

exert this wholesome influence. This influence cannot be exerted to its full unless the banker is alert to learn the real facts as to the economic situation of the American farmer. To make his advice convincing and effective he must have a broad but sound vision of the whole situation and be able to drive the facts home to the farmer. This is not only a day of great responsibility for the banker, but also a day of great opportunity. No banker who fails to make himself more than a mere business convenience to his farmer patrons is living up to his responsibilities either as a banker or a citizen. He has a chance to do his country vast service, first by understanding the economic situation of agriculture; second, by helping the farmer to take sound and progressive action along cooperative lines;

and voice in the halls of legislation. Whether or not this assumption is well grounded, his present danger is not too little farmer legislation, but too much. Today the farmer can get legislation easier than any other interest can get it. About all he has to do is to write out his legislative prescription and ask to have it filled. When legislation comes as easy as this, overdosing is almost certain to follow.

Many of the real leaders of the farmers' organizations recognize this peril and admit that class legislation is altogether likely to prove a boomerang. They are applying, so far as possible, the soft pedal to radical legislative demands on the part of their followers. In this effort they should have the active and sustained help of the bankers everywhere.

Now that the farmer has awakened to the power and advantages of cooperation and combination in his business, his mental pores are open to the argument of political combination. He is being assiduously vamped by professionals who offer very seductive lures in the way of political combination. Organized labor is plying the farmer with flowers, candy and proposals of eternal faithfulness and a fruitful and happy union.

Nothing Impossible

If the banker neglects his job as the home missionary of sound business economics we are likely to see quite a number of these incongruous alliances in the Western States. In a strategic sense it is up to the banker to show the farmer that forced and inflated wages for the workers in industry do not spell higher prices for farm products; that the prosperity of the farmer does not follow the demand for silk shirts for the backs of town

and city wage workers. For particulars, see the history of wages in the building trades and other "organized trades" for the past two years and compare them with the net return of the farmers!

There is still another and a specific reason why bankers everywhere should strengthen their lines of influence with the farmers. Some of the legislation advocated by those who are supposed to be the direct and hand-picked representatives of the farmers is aimed against the wisest and soundest banking legislation ever passed by Congress. For example, one attack is upon the Federal Reserve Act. Our Federal Reserve system has been too strong a defense in time of stress to be tinkered with by amateurs armed with pitchforks. No danger that they will succeed in throwing a monkey-wrench into that machine—which has done so much to protect them from the deflation stampede. Well, a lot of "impossible" things have happened in the last two years! This appears to be the Age of Home Brew in politics and legislation as well as in liquid stimulants. Certainly it is open season on established traditions of all sorts and breeds.



THE "ISOLATED" FARMER

third, by preventing the farmer from overplaying his hand.

Demagogue Competitors

As an adviser to the farmer, the banker is competing with the formidable array of demagogues as well as with a chorus of sincere but mistaken vendors of economic "cure-alls." One is about as dangerous as the other. Both are urging legislative remedies—one because the advocacy of this or that doctrine means personal election to important office, the other because he really believes that farmer prosperity can be created by the passage of legislation of his particular brand.

Quite generally farmers seem inclined to feel that they have been rather "inarticulate" and without adequate representation

The political bootleg stuff which is being circulated in the "great open spaces" of the West has a wonderful kick to it and the safest observation any man can make as to a political campaign or a legislative policy—no matter how fantastic it may seem to conservative eyes—is that "You can't tell what may happen." Yes; this is an age of political fermentation, all right, and the output is loaded with surprises.

It is the part of discretion and preparedness for bankers to assume that the worst is likely to happen unless a lot of intelligent and active work is done to head it off—hand-to-hand work with farmer friends as well as public work of a general campaign character. It would be difficult to imagine anything more incongruous than the idea that the interests of the farmer and the labor union are identical and that they should pull together in the same double harness, politically speaking. Yet thousands of farmers are accepting this doctrine eagerly from the lips of plausible labor leaders. Here is one specific point of attack for bankers who are awake to their perils.

If the credit of the farmers of America has not been ruined—and it hasn't been—this is not the fault of the most conspicuous men who have obtained seats in Congress by grace of farmers' votes. Apparently they have done their best to make the world believe that the American farmer is hopelessly bankrupt. He isn't—not by a long shot! True, thousands of wheat farmers are virtually flat. But the wheat crop is only about 6 per cent of the total sales volume of America's farm production. To gauge the condition of American agriculture by the price of a 6 per cent product in point of sales is not highly intelligent, to say the least.

And right in this connection is to be found one of the best examples of the changed attitude of the organized farmer. The greatest organization of farmers in this country has given it out flat that from now on the wheat farmers of this country do not propose to bother about the export wheat trade; they are going to let the cheap wheat lands of South America, Russia, and the old world generally have the European market to themselves—and welcome! They propose to raise enough wheat for the United States, but not a surplus. If this policy is adhered to it's an easy guess that there are brighter days ahead for the wheat farmer in the United States. Too much wheat has been raised here—and raised at an outright loss.

Farm Credits

IT has taken years of special and intensive education to get the South away from the one crop idea—the vast educational extension system of the county agricultural agent organization owes its genesis to the necessity of getting the cotton farmer into diversified agriculture. The wheat farmer

must follow the same trail, but it is not going to require as much educational effort to induce him to play safe by abandoning the practice of putting all his eggs into one basket. Since Dr. Seaman A. Knapp started his great idea of carrying the gospel of better and more intelligent farm methods to the plantations and patches of the cotton farmers, the capacity of farmers everywhere to absorb new ideas and apply them has immensely increased. Farmers now are able to turn a sharp corner on short notice. Bankers have contributed greatly to this great educational movement. But their work in this field is by no means finished. They have a different task to perform now.

Any comment on new fashions in farm

and in the main the farmer has received rather liberal treatment from his local banker—quite as much consideration as has been extended to the merchant and the manufacturer!

Get Close to Farmer

THEN he has the facilities of the Federal Farm Loan Bank, devoted to finance farm purchases and farm development over a long period of years and at a low interest.

And now comes the Intermediate Loan Act—to fill the gap between the two forms of credit just mentioned! If the truth were told, many a country banker has strained his conscience and "taken a chance"

in "carrying" his farmer patrons on ninety-day loans—extended indefinitely. The "Intermediate" credit for farmers furnishes a welcome relief to this credit pressure from the hard-pressed farmer.

But the burden of this warning to my banker friend is this: Get close to the farmer and his problems—for they are both changing as rapidly as a boy at the age of adolescence. In this period he needs all the steady influences which can be brought to bear upon him. He is probably bound to do a good many foolish things and make a lot of mistakes—especially in the choice of friends and in overeating at the legislative cake basket. But he is at a critical stage in his development, and every honest attention given to the job of his development is likely to be repaid a hundredfold. The country cannot prosper unless he prospers. He has given striking proof of his capacity to utilize the most essential principle of modern business economics—that of combination and cooperation—and to follow the lines of practice which have put the "big" into "Big Business."

The farmer is making headway and making history right now—but he needs all the help he can have to keep him from making too many mistakes and too many false friends—who are peddling the gold bricks of legislated prosperity.

Wage Adjustments

"Future wage adjustments may be complicated by the definite upward trend of prices," says the National Industrial Conference Board Survey. "The Conference Board's survey shows a rise in living costs of slightly over 1 per cent from Aug. 15 to Sept. 15, due to an increase of 2.1 per cent in retail food prices and of 2.4 per cent in clothing prices. The Bureau of Labor's index of wholesale prices rose nearly 2 1/4 per cent in September. Despite reports of record sales of mail order and chain stores in 1923 to date, industrial activity is uncertain."



"TAKE THIS DOWN TO WASHINGTON AND HAVE IT FILLED!"

"About all the farmer has to do is to write out his legislative prescription."

finance is incomplete without reference to the latest measure for the farmer's credit relief. Any banker who is familiar with the provisions of this law—and, of course, all should be—will wonder upon what certain political farmers base their cry for more credit and cheaper credit for the farmer. With the means of borrowing for a period as long as thirty-six months at not to exceed one per cent above the debenture rate, it would appear that any farmer is in good position to finance his operations without being obliged to sell at harvest time; that at a low interest cost he is enabled to carry his crop over the entire consumption period, if necessary, and to market it at the greatest possible advantage. Also it would seem that the farmer is now fairly well fixed as to credit facilities. First he has the home bank for short time loans—

Trust Departments in Nationals

By E. E. MOUNTJOY

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Sixteen Hundred Banks Have Trust Powers. Federal Reserve Board Is Approving Applications at the Rate of Fifteen a Month. Some of the Conditions to be Considered When a National Bank Assumes Fiduciary Powers.

TO approximately 1600 national banks trust powers have been accorded and additional applications are being approved by the Federal Reserve Board at the rate of about fifteen each month.

These applications come from cities large and small, but in most of these places there is already in some degree a recognition of the value of trust departments and an evident purpose to employ them. There are, however, thousands of banks in communities which perhaps would not support active trust departments just now. Pioneering must be done in those places. Just when the corporate fiduciary idea will have spread sufficiently to create a reasonable volume of business is problematical. When the knowledge that national banks are permitted to act in that capacity becomes more general, trust departments, it is likely, will be found in most communities.

The Federal Reserve Board two years ago made a survey of the volume and nature of the trust work being done by national banks, since which time no attempt has been made to ascertain the extent of this work. It was felt that an inquiry which would disclose the number and location of banks so engaged would be helpful—and to this end the National Bank recently sent out a questionnaire. The replies corroborated the earlier impressions and developed new and interesting facts.

Not all the national banks holding trust powers are using them. The first question was intended to discover the number actually engaged in the exercise of their powers, and whether their business is of a general nature. Response was not as complete as was expected. The number answering that question in the affirmative, and the replies to a similar earlier inquiry, indicate that about 800 national banks are engaged in this work. Ninety per cent of these banks reported trust work of a general nature. This is construed to refer to personal trusts, as distinguished from corporate trusts, for in reply to another question, 380 of the banks advised that they are handling the latter class of work also. This seems to be an indication that the administrations of national banks are growing in public favor.

Of the reporting banks more than one-half in number are located in the States east of Ohio and north of North Carolina, though in that group of States there are less than 30 per cent of the national banks in the United States. This is not contrary, though, to the recognized fact that the greatest amount of trust work arises in

industrial communities, the larger number of which are within the territory described above. Numerous States west of the group mentioned herein were found to have many active national bank trust departments.

Less than 100 banks west of the Mississippi River reported active departments. The number of replies, however, cannot correctly indicate the volume of trust work being done in that section. In the cities and in the larger towns many flourishing trust departments are known to exist. It is felt that responses from that section were not representative.

The greatest number of replies from any one State came from New York. Pennsylvania was second, though it has more national banks than any other State in the Union. Other States reported active departments in the following numerical order: Indiana, New Jersey, Illinois, Ohio and Massachusetts. The numbers of active departments shown in the various States do not bear any uniform relation to the numbers of banks therein holding trust powers.

The inquiry as to the various forms of publicity used showed that newspaper advertising is first. The next most popular method of securing business is through personal letters, with booklets in series, personal solicitation and circulars following in order.

The most gratifying feature of the inquiry was the disclosure that very few departments are experiencing difficulties. There is the feeling that trust department growth is slow; that it demands constant and specialized effort. The conditions responsible therefor are not generally considered to be obstacles; they are simply the ordinary problems encountered in the development of any new business.

One condition requiring a good deal of attention is that the public is not accustomed to calling upon national banks for trust service. That condition will be righted through publicity and evolution. In the opinion of men experienced in trust work each bit of advertising redounds to the advantage of all trustees. It carries new thoughts to the minds of possible trustors and transforms the potential trust work into actual administrations.

Numbers of banks replied that the selection of satisfactory accounting forms has caused some annoyance, and that compliance with State laws is sometimes burdensome. The latter difficulties are little different from those experienced by other corporations doing fiduciary work in the same States. A few banks reported that the indifference of their officers is responsible

for the slow growth of the department. Under such conditions there is perhaps little justification for the existence of a trust department. The perspective is entirely wrong and must be corrected if the departments are to develop.

The desirability of operating trust departments seems to have impressed national banks in towns and cities of all sizes. In the smaller places usually the work is done by officers and employees engaged also in the performance of other duties. Only by such a division of work can trust departments be maintained in some places, for the volume of business does not warrant the employment of officers giving their entire time to that department. Likewise, in the smaller places fewer powers are exercised. More often they are those of executor and administrator, though a surprising number report other forms of work.

The average trust department expects a considerable part of its work at some future time to be in the administration of estates of decedents. The uncertainty of that time and the desirability of keeping the department employed in the interim have given rise to efforts to popularize the so-called voluntary or living trusts.

Towns of less than 5000 inhabitants report 130 active trust departments, while more than 50 per cent of the replies from banks actively engaged in trust work came from towns of less than 20,000 population. This is in harmony with figures received at another time, showing that the greater number of trust departments are in national banks in small communities, though it must be remembered, also, that the majority of banks are located in small communities. There is trust work to be performed in those places, and there is reason to believe that it will develop in proportion to the efforts expended in making known the trust facilities possessed by the local banks.

Running through the enthusiastic and satisfactory reports made by most of the banks engaged in trust work, there is also a note of caution—a warning of the responsibilities of trust operations. Attention is directed to the technical and complex nature of the work. In the inauguration of such a department the bank assumes an exacting obligation which cannot be laid aside. There is a feeling that trust work should be undertaken only when the bank has equipped itself properly—and has thus made as remote as it can the possibility of losses—and when it is determined to continue the department despite probable deficits during the first few years.

Worshiping False Gods

By WALTER W. HEAD

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Provisions of the Constitution Guarding Against the Results of Headlong Haste. Proposal in the Senate Limiting Powers of the Supreme Court Would Destroy the Constitution. If Congress Can Override Court, Congress Can Abolish Presidency.

INDIVIDUAL man is born, matures, achieves and dies. This is also the history of nations. Each nation reaches its zenith—by toil, by painstaking effort, by hard won achievement. Each enjoys the rewards of greatness. Each is subject to the dangers of greatness. As individuals vary in the degree of achievement, according to the degree of their labor and the pressure of surrounding environment, so nations attain varying heights of eminence in proportion to the genius displayed by their citizens, the effort expended and the strength of competitive forces.

There is always a reason for the supremacy of certain individuals. There is a reason for their decline in fame and power. There is always a reason for the supremacy of certain states, a reason for their decadence. Certain indisputable principles made Athens and Rome great in ancient times; certain inexorable laws of retributory compensation brought about their fall. The same principles which brought glory and ruin to these states centuries ago in our own day raised Germany to a place of tremendous power and glorious repute, then brought her crashing down to a chaotic social, economic and political wreck.

Athens arose to a dominant position, the leader of the then known world—a pure democracy. The valor of her citizens, their high degree of education and culture—almost universally enjoyed—their rare devotion to their state, overcame all obstacles. Athenians, in the age of Pericles, attained such universal excellence of mind and character that the state seldom suffered from the rule which required the greater part of the public offices to be filled by lot; citizens of Athens were almost uniformly well qualified for positions of trust and responsibility.

The Failure of Democracy

BUT the greatness of Athens brought about her undoing. Leadership of the Grecian states brought thirst for power, thirst for the rewards and indulgences which are the fruits of power. Athens denied the right of other states to secede from the Grecian league, merged the league's treasury with her own and used the ships and money of the Grecian allies for her own aggrandizement. There followed the Peloponnesian war, the subordination of Athens by Sparta and then by Thebes, later the subjugation of Greece by Philip of Macedonia.

A century later, Rome began a period of conquest that subjugated all Italy and

laid the foundation for the extension of Roman rule beyond the peninsula. Within two centuries Greece became a Roman province, as did Sicily, Carthage and Cisalpine Gaul. Rome became the center of the civilized world. Rome was a democracy and to be a citizen of Rome therefore became synonymous with wealth, power and glory. But these benefits, as with Athens, developed abuses which brought their own retribution. The rule of the foreign provinces entailed great prizes of treasure and power and the votes of Romans became valuable because they controlled the distribution of favor. Bribery and corruption followed. The moral fiber of the state declined. An aristocracy developed, based on wealth; the rich and the poor became the two classes of Roman society, instead of the patricians and the plebeians. The poor sought a more equitable division of property and, peaceful methods failing, endeavored to enforce their demands by civil war. The great days of the Roman republic had ended; anarchy followed. Italy was drenched with the blood of her own people. Out of this there developed the first triumvirate. Rome again gained great glories of conquest, but the republic lived no longer. Rome was ruled by dictators, later by emperors.

Democracy unchecked, unbridled—unrestrained from without or from within—died in Rome as it did in Athens.

A New Ideal

MORE than 1700 years after the collapse of the Roman democracy, a little band of dauntless spirits crossed the sea and brought to the shore of a new land—America—our America—the seed of the principle of freedom and political equality which was destined to bear, as its fruit, the world's greatest achievement in self-government.

The Pilgrims fled from religious persecution. They rebelled against the intolerance which required them to worship God in forms not of their own choosing. More than that—they rebelled against the whole theory and practice of government from without rather than from within. They objected not merely to persecution resulting from differences of religious belief; they protested as well against a government which failed to consider the wishes, the desires and the aspirations of the people.

The Spirit of the Pilgrim

IT was because of this spirit that the Pilgrims founded Plymouth. It was this spirit that built the town government which

was the genesis of American ideals of government "of the people, by the people, for the people." In this old Plymouth town each free man had a voice in the conduct of public affairs. There was no despot; here no one was persecuted. Unlike their Puritan neighbors who, having fled from intolerance, became themselves intolerant, the Pilgrims truly practised the Golden Rule—they did unto others what they would have others do unto them. That great orator and statesman, George Frisbie Hoar, paid this just and lasting tribute to the Pilgrim of Plymouth:

"He was gentle, peaceful, tolerant, gracious. There was no intolerance or hatred or bigotry in his little commonwealth. He hanged no witches, he whipped no Quakers, he banished no heretics. He enacted the mildest code of laws on the face of the earth. There were but eight capital offenses in Plymouth; there were 223 in England two centuries later. He held no foot of land not fairly obtained by honest purchase. He treated the Indians with justice and good faith. * * * The Pilgrim's weapon is love and not hate. His spirit is the spirit of John, the beloved Disciple—the spirit of Grace, Mercy and Peace. His memory is as sweet and fragrant as the perfume of the little flower which gave its name to the ship which brought him over."

One hundred and sixty-seven years later the Pilgrims landed, their ideals of government, modified necessarily by wide expanse of territory, and the large number and the diverse nature of the people governed, were translated into the Constitution of the United States of America. That constitution—a written document—by imposing limits and restrictions at once upon the officers who govern and the people who are governed—set this republic apart from all its predecessors. Here, for the first time, the rights of the individual were defined and made unchangeable, except by most deliberate amendatory action. Here, for the first time, individual citizens—demanding of government that it recognize and respect their rights—acknowledged also the necessity of restraining themselves in the exercise of their own sovereign power. Up to that time no other people had attempted to definitely and elaborately to prevent the inefficacy of their government because of their own potential weakness.

From the very beginning the framers of the Constitution recognized that danger lay in the absence of restraint on the governing power, whether it be a king or emperor in the case of a monarchy, or the people themselves in the case of a republic. They had suffered under a government administered from beyond the seas, without restraint imposed by the wish or will of its subjects. They had suffered also under a government created by the Articles of Confederation, so loosely constructed that

it restrained no one, least of all the states which composed it.

With this background it was but natural that the Constitution should be in part a compromise. A central government was created, strong enough to restrain the states and individual citizens thereof. At the same time this government, by its written constitution, was placed under strict limitations of authority, beyond which it could not go. Furthermore, the people themselves, the supreme and final sovereign power, placed restraints upon the scope of their own activity—perhaps one of the most wise and far-sighted provisions of the entire covenant.

A Successful Government

FOR a century and thirty-four years, we have existed under a government which has functioned by authority of this Constitution. We have survived prosperity. We have survived adversity. We have grown from a loosely jointed group of communities, then the far-flung outpost of civilization, into a great world power. We have fought four foreign wars. We have suffered the terrible pangs of civil strife. We number now more than a hundred million people, with greater income, greater wealth and greater natural resources than any other people under a single government. One Constitution—amended from time to time as its own terms permit—has sufficed us throughout this entire period. It has given authority and power to our Federal Government; it has curbed undue ambition on the part of individuals, officials and states; sometimes even it has restrained the desires of the very people who created it and who are the seat of its authority. It has determined and secured for its individual citizens rights and privileges, the free exercise of which has made America the land of opportunity, the hope of the forlorn and oppressed of every other land.

Today we hear some criticism of this fundamental law. We hear it attacked as an instrument long ago out-worn, a legacy whereby a by-gone age places a paralyzing hand upon today's progress. It is assailed because of the restraints it imposes upon the governing power and, more particularly, because of the restraints it imposes upon the people themselves. Let us consider the propriety of these complaints.

The Restraints of the Constitution

THE Constitution expressly limited the authority of the central government to those rights and powers specifically created by its terms. It then created three distinct branches of government—legislative, executive and judicial. Each was made—with certain definite exceptions—Independent from the others, quite contrary to the British practice where for instance the executive is a creature of the legislative department. The power of the legislature was limited by giving the executive the right of veto; the power of the executive was limited by requiring legislative approval of treaties and appointments, by authorizing impeachment of the executive by the legislative power in case of dire misdeeds. Furthermore, the legislative power was split into two divisions: in one, representation is

proportionate to population, in the other each state has equal representation, regardless of population.

These provisions constitute the principal restraints of the Constitution, the principal bars raised against autocratic domination by a single branch of the government—or by a headstrong majority of the people. Every provision enumerated, every grant of authority and every restraint of power has its particular reason for existence, and its particular purpose.

We have heard at times much criticism of the division of the treaty-making power between the executive and the legislative divisions of the government. We are told that the executive is unduly hampered, that the conduct of our foreign relations is made cumbersome and at times well-nigh impossible because of the constitutional limitation which requires the approval of two-thirds of the Senate to a binding obligation with another government. Probably the greatest test of this restraint was the conflict between the President and the Senate over American membership in the League of Nations. Yet, in view of the tremendous majority given in 1920 to candidates who opposed our participation, who will say that this is not a wise restriction? Regardless of whether we approve or disapprove of the decision so recorded by the electorate, how can we, who believe in and advocate popular government, condemn that provision which prevented the consummation of a treaty so manifestly disapproved at that time by such a large majority of our people?

Probably the greatest controversy in the constitutional convention involved a second provision of this series of restraints—the division of the legislative power into two parts, the one representing the people in proportion to the numbers resident in a particular territory, the other representing the states as individual entities. The states which were populous in 1787—or which had hopes of becoming populous—preferred that each state be represented in the federal legislature in proportion to population; the smaller states wished each state to have an equal vote. The reason for this division of opinion is obvious. Connecticut proposed the compromise which was adopted—that population be the basis of representation in one house and statehood in the other. It was then decided that the Senate members should hold office for six years and that only one-third of the number should come up for election each biennium.

Limiting the People's Power

THE debates on these provisions first bring into prominence the desire of the framers of the Constitution that the power of the people themselves be placed under restraint. The effect of equal representation of states in the Senate is to destroy the opportunity for a bare majority of the people to control legislation. There must be a majority first; in addition, the majority must be so distributed that it controls a majority of the states. The wisdom of this provision could hardly have been appreciated fully by the men who framed it. Whatever its merit in their day, with thirteen states along the Atlantic seaboard, it is infinitely more meritorious today, when forty-eight states stretch from the Atlantic

to the Pacific and from the Great Lakes to the Gulf of Mexico. Were population the only basis of representation, fifteen states, all except one pre-eminently industrial, would dominate the National Congress and cast a majority of the votes—New England, New York, Pennsylvania, New Jersey, Ohio, Illinois, Indiana, Michigan, West Virginia and Missouri. The possibility of sectional disputes and abuses due to disregard of the wide diversity of our country's interest is too manifest to require discussion.

The question of a six-year term for senators brought frank statements from the framers of the Constitution that the sovereign voters in a republic are apt to be swayed unduly by temporary passion from one extreme to another. For this reason it was considered very proper that one branch of Congress should be a continuing body, a majority of its members always certain to survive the tide of a single election. This provision has been justified by the history of our elections. Oftentimes we have seen a complete reversal of the expressed views of the electorate in the two years between elections. With full recognition of the excellent judgment of the people over any considerable period of time, we must also recognize that progress is measured by the average of successive tides of public opinion, not by momentary extremes.

The Function of the Courts

IT is, however, the remaining restraint of the Constitution which attracts today the greatest attention and which has developed tendencies and effects which the makers of the Constitution hardly could have foreseen. That is the restraint embodied specifically in the provision that "the powers not delegated to the United States by the Constitution nor prohibited by it to the states are reserved to the states respectively or to the people." This provision states specifically what the whole Constitution states in spirit, viz., the federal government has only such authority and power as is expressly conferred upon it.

The results of this plan of limited authority have been far-reaching. Because of it, our courts are a far more important feature of our governmental machinery than would otherwise be the case; largely because of it, we have opportunities for progress and for survival as a self-governing people which are not inherent in other republics.

By this provision the people restrain their representatives of the moment; by this provision they restrain their own momentary passions. This provision in a written constitution differentiates our government from that of Great Britain, for under the British system Parliament has the right to any and all authority which it cares to assume. Custom, tradition, the fear of an adverse majority at the next election—these, in Great Britain, are the only restraints. But, in the United States, an overwhelming popular demand for certain legislation by Congress will not bring it about if it is not within the powers expressly enumerated by the Constitution as belonging to the federal government.

Undoubtedly, the principal purpose of this

provision was to protect the state governments against the anticipated attempts of the federal government to encroach upon the authority of the states, to prevent the building up of a centralized octopus of government which would be self-sustaining and which would be defiant of the states and of the people. We who live today, more than any other generation which has lived under the Constitution since its birth, can appreciate the danger of such encroachment. We see a government functioning at Washington which shows a capacity of interference with individual conduct beyond the farthest imaginings of our forefathers of 1787. The powers expressly granted by the Constitution, or by subsequent amendments, are sufficient to authorize that which is imposed upon us—and yet we constantly hear attacks upon our Constitution and upon the courts which uphold it, because, the critics say, it limits congressional authority unduly!

Rather than encourage or condone such criticism, we should on bended knees thank God that the Constitution has such limitations and that there is in our country an authority for interpreting and applying its restraints. The courts, permit me to remark, did not make the Constitution. The courts have not and do not change it, bend it or twist it. The people made it. The people can change it. The people have changed it. The people have the power to change it again.

The People Are Sovereign

THAT is a point which is ignored by most critics of the courts and the Constitution. The Constitution itself provides a method for granting additional powers to the federal government, or for withdrawing powers already granted. The people, more than once, have made use of this right. In a comparatively few years, by the people's exercise of this sovereign power, we have achieved an income tax, direct election of United States senators, women's suffrage and prohibition. The constitutional restraint upon new powers and activities of the federal government is not an absolute restraint. It is a restraint only to the extent that before any change is made, there must be some degree of sober judgment, supported by a decisive majority of the people. It is not a restraint upon orderly progress but only upon impetuous haste. It does not forbid change; it simply insures reflection upon the results of change before the change is made.

Protecting the Individual

IT is true, as critics of our courts contend, that nowhere in the Constitution are the courts specifically given power to pronounce unconstitutional a law enacted by Congress. The federal courts, however, are authorized to determine disputes between individual citizens, between states, between citizens and states, between citizens and the federal government, when such disputes involve the interpretation of federal laws. When a litigant is before the court, charged with violating a law enacted by Congress, it is the duty of the court to determine whether or not he has violated the law and deserves punishment. If Congress had no authority to pass the law in question, manifestly

As to Authority

WHEN a litigant is before the court, charged with violating a law enacted by Congress, it is the duty of the court to determine whether or not he has violated the law and deserves punishment. If Congress had no authority to pass the law in question, manifestly the accused cannot be held guilty of an offense, for Congress had and has no more authority to forbid certain acts than any other group of citizens, save only within its constitutional powers. Necessarily, therefore, the courts have to determine whether or not Congress had the power to enact the law in controversy. That is all that is involved in the power of the courts to pronounce a given law unconstitutional. —Walter W. Head.

the accused cannot be held guilty of an offense, for Congress had and has no more authority to forbid certain acts than any other group of citizens, save only within its constitutional powers. Necessarily, therefore, the courts have to determine whether or not Congress had the power to enact the law in controversy. That is all that is involved in the power of the courts to pronounce a given law unconstitutional. The power of the courts is designed primarily to protect the individual citizens in the exercise of those rights which they, through the instrumentality of the Constitution, have undertaken to preserve to themselves.

This power and its exercise is a necessary part of the structure of our Government. If Congress can enact laws outside the scope of its constitutional authority, then the President can perform acts outside the scope of his constitutional authority. If Congress can ignore the constitutional provision regulating the imposition of direct taxes by the federal government, then the President can likewise ignore it and—supported by an unrestrained Congress—can use the army and navy to maintain himself in office without submitting his candidacy for re-election to a vote of the people. If one limitation of the Constitution is not maintained, then no other limitation is safe from violation. There can be no middle ground. We either revere and obey the Constitution, or we disobey and ignore it. The very liberties of the people, guaranteed to them by the Constitution, would be endangered by a refusal to observe the restraints imposed upon the people themselves through the instrumentality of the Constitution.

The Hon. James Bryce, that earnest and sympathetic British student of American institutions, said:

"The Supreme Court is the living voice of the Constitution—that is, of the will of the people expressed in the fundamental law they have enacted.

It is, therefore, as one has said, the conscience of the people, who have resolved to restrain themselves from hasty or unjust action by placing their representatives under the restriction of a permanent law. It is the guarantee of the minority, who, when threatened by the impatient vehemence of the majority, can appeal to this permanent law, finding the interpreter and enforcer thereof in a court set high above the assaults of faction."

A Power Jealously Guarded

WE might think, from the criticism voiced frequently and vigorously in recent years, that the courts have abused this power, that the people have been balked not once but many times—frequently, habitually—in their desire for changes which the courts, in their interpretation of the Constitution, have ruled impossible without the amendment of that fundamental law in the manner provided by its own terms. This is not the case. Charles Warren, former Assistant Attorney General of the United States, has pointed out that the Supreme Court has declared an act of Congress unconstitutional in only fifty cases in 134 years. Only fifty times since our Government was born has the Supreme Court decided that the people must give second thought to proposed legislation, that the people, rather than Congress, must decide whether such legislation should become in fact the law of the land.

Senator Borah proposes that no law be held unconstitutional unless seven of the nine judges of the Supreme Court so declare it; Senator LaFollette would go farther and authorize Congress to override the court's decision by the simple expedient of re-enacting the voided law a second time. Mr. Warren very properly points out the danger of either plan. A wrong is not made right merely by weight of numbers. A seven-to-two decision voiding the Child Labor Law would not satisfy its advocates—nor should it—any more than a six-to-three or a five-to-four decision. Senator Borah's proposal does not dispose of the question. Senator LaFollette's plan does dispose of it, but does so by wiping out the Constitution. If Congress can override the court's decision declaring an income tax law unconstitutional, then it can pass a law abolishing the Presidency. It can abolish the courts. It can repeal the Constitution. Again I say there is no middle ground. We either progress by orderly process or we proceed headlong into a maelstrom of uncertainty, impelled by momentary passion, denying deliberate reflection.

The critics of this power of the courts are, in fact, critics of our Constitution, critics of any constitution which requires respect from the people who create it and for whose protection it was created. Yet their criticism is loud and vigorous. Oh, fellow citizens, let us be more charitable, less critical, more thoughtful, less precipitate. Let us respect those whom we place in public office. They are so placed by reason of our choice, expressed at the polls. In office, they represent us; their power is our power, delegated by us to them. Let us be tolerant, honest in our criticism, generous with our praise.

Principles That Never Change

IN this day of rapid changes it has been said that nothing is good which is more than five years old. With that statement, I am in violent disagreement. The auto-

mobile is a symbol of modern progress. Yet the iron used in its manufacture comes from the earth and is many thousand times five years old. The coal with which the factory is operated is thousands of years old; likewise the many other elements which enter into its production. The only new thing about the automobile is the use which has been made of those age-old materials.

The fundamental principles of the past are good: that has been demonstrated and proved from generation to generation. They change but little, if at all. Right and dependable principles are as old as the hills. The new things of today which are worth while are the new applications of old principles to present conditions.

I appeal to you today for a revival of old-time principles. I appeal to you for firm and steadfast adherence to gradual evolution, instead of revolution.

We have, in recent years, advanced very rapidly—in science, in social and economic life, in government. In this country we have advanced by evolution, and for that we have reason to be profoundly thankful. Our principles of government and of conduct have been strained to the limit, but not broken. It is our duty today to see that they are never broken. More than that, it is our duty to see that they are not strained unduly, for continued strain weakens the structure, threatens collapse.

We have, I say, progressed rapidly in the last few years—very rapidly. We have progressed in order to take advantage of changed conditions, in order to meet new responsibilities and attain new rewards. We must always progress. We must always be keenly alert to foresee the necessity for change in our laws—for amendment to our Constitution—to meet the changing necessities of the time. It is only as we make our law and our Constitution responsive to the needs of our people that we insure ourselves against revolution by making evolution certain.

There are those among us who think that whatever is right, that any change is

Two Proposals

SENATOR BORAH proposes that no law be held unconstitutional unless seven of the nine judges of the Supreme Court so declare it; Senator LaFollette would go farther and authorize Congress to override the court's decision by the simple expedient of re-enacting the voided law a second time. A wrong is not made right merely by weight of numbers. A seven-to-two decision voiding the Child Labor Law would not satisfy its advocates—nor would it—any more than a six-to-three or a five-to-four decision. Senator Borah's proposal does not dispose of the question. Senator LaFollette's plan does dispose of it, but does so by wiping out the Constitution. If Congress can override the court's decision declaring an income tax law unconstitutional, then it can pass a law abolishing the Presidency.—Walter W. Head.

make certain of the firmness and steadfastness of our faith, before proceeding further.

A Time for Reflection

IN war, there comes a time when the advance is stopped, even though the enemy be still in flight, in order that the advancing army may "consolidate its positions"—in order that the front may become one unbroken, impregnable line, in order that communication with the base of supplies at the rear may be firmly established. We have reached the point in our progress today when we, too, have cause to "consolidate our positions"—to bring up the laggards to the front line, to bring back those who have rushed impetuously into untenable advanced positions, to make sure that we rest upon a solid foundation of sound principle.

Bankers and other business men who over-extend themselves in time of prosperity court disaster. Nations which over-reach themselves in an era of progress invite catastrophe. The history of Athens and of Rome, which I have recited briefly, contains a solemn warning. A people which advances without check or restraint imposed by itself from within invites the imposition of restraint from without, whether it originate with other peoples or with the resistless force of natural laws.

Let us today be as were the Pilgrims of Plymouth—tolerant, without bigotry, honest, without hatred born in selfishness. Let us not worship false Gods. Let us be true to proven principles. Let us so conduct ourselves, as a nation and as individuals, that there need be no new laws imposed to restrain us. Let us restrain ourselves. Let us, in fact, practise self-government—keeping America free and independent of outside restraints because of the verity and glory of the principles which it enshrines, keeping ourselves free, as we now are, by reason of our own sense of individual responsibility and regard for the rights of our fellow-man.

wrong. There are others who think that whatever is is wrong, that all must be changed. Both are equally blind. Both must be awakened. Both must be made to see that we have a great structure built upon a solid foundation, which we must forever protect and preserve—but which we must strengthen and to which we must add as the days and years go by, to make it ever a better edifice in which we and our children may live. With all that, we have today reached a point where we may well afford to take account of ourselves and our present state.



The Conference of Governors with President Coolidge, originally planned by President Harding, to discuss the enforcement of Prohibition

The Ravages of Inflation

By E. E. AGGER
Columbia University

Economic Vivisection in Germany. The Shattering of the Price Structure Made Orderly Business Calculations Impossible. Failure of the "Reproduction Price" Scheme. Banks Have Protected Themselves by Direct Participation in the Industries.

CAN Men Learn?" This was the subject of an address of President Nicholas Murray Butler at the opening of Columbia University last September. President Butler was of the opinion that, in view of the history of the last few years, the answer to this question is not so obvious as at first glance it would appear to be.

Certainly, in the field of money, students are tempted to repeat the query, can men learn? Despite numerous experiences with inflated currency in the past, one country or another, pressed by financial hardship, or misled by seductive propaganda, seems always willing to try the wretched experiment over again. At the moment Germany is the "horrible example." There the devastating effects of unbridled inflation show themselves with such intensity and vividness that no excuse is left to the present generation for failing to envisage just what inflation in modern economic society means. Indeed, in a sense, we are watching in Germany an experiment in social vivisection—with this departure from accepted laboratory technique, that nothing is being done to relieve the pain and the writhings of the victim.

It will serve a useful purpose to look into the experiment a little and to observe the more significant phases of its development. It will not be necessary to raise the question of responsibility for the policy of inflation—there is not unanimity among the Germans themselves over this question. Suffice it for the present to see what are some of the consequences of inflation that have been visited upon the people of Germany themselves.

Price System Shattered

ONE of the outstanding catastrophes has been the complete shattering of the whole price structure. What this means will be appreciated when it is recalled how controlling prices are throughout the whole business structure and how delicate and responsive is the system in normal times.

In Germany for some time there has been no price system at all. Chaos has supplanted order. Since the beginning of inflation, and in rising degree as inflation has developed, there has been chronic discrepancy between domestic and international prices. The rapid but irregular decline in the international value of the mark has precluded the possibility of any harmonious adjustment of domestic to international prices. In certain lines attempts have been made to introduce a system of gold valua-

tion. Prices are quoted on a gold-mark basis, and these prices are then converted into paper according to the gold quotation of the day. This system is itself not satisfactory, but, such as it is, it has been beyond the reach of the great mass of people. And, in so far as it has been successfully introduced, it implies a shifting by the beneficiaries of their part of the inflation burden and a corresponding increase of such burden on the shoulders of those unable to regulate their affairs on a gold-mark basis.

Not only has there been a great discrepancy between internal and external prices, but domestic prices considered alone have been most unstable and uneven. The old economic adage that the price of a given article in two markets cannot vary more than the handling and transportation costs between such markets has been violated over and over again in Germany. The rapid decline in the paper mark put domestic prices in a ferment. Changes were rapid, the afternoon price often being much higher than that which was quoted in the morning, but there was no uniformity in the readjustment and there were often ridiculous discrepancies from one city block to another.

Orderly Business Calculations Impossible

UNDER such conditions business men find it impossible to make the most ordinary calculations. Indeed, the simplest kind of business became in Germany a wild speculation. Merchants and middlemen generally found themselves in a precarious position. While disposing of stocks on hand, they could never be sure of the price which they would have to pay for new supplies. On paper they might appear to be making wonderful profits, while actually many were frittering away their capital. A story is told about a dealer in wire nails. After the Armistice he had six carloads of nails, and he disposed of them at a handsome profit. But when he wished to re-stock he found that all his money would buy only five carloads. The next turnover found him able to buy only four carloads, then three, and so on, until, according to the story, he had a single nail left. This the distracted merchant drove into the wall and on it he hung himself. Many a business man in Germany has through unprofitable turnover sacrificed at least a part of his capital. Comparatively, there were few who fully grasped the situation, and of these few only a fraction could protect themselves adequately against capital impairment.

Capital Accumulations

NATURALLY, under conditions of demoralized inflation, the normal gathering up and apportionment to use, by the banking machinery, of the community's available capital is also seriously interfered with. Bank rates in the occupied areas were reported as high as 2 per cent per day on unsecured overdrafts. One per cent per day has probably not been uncommon all through Germany. These rates seem outrageous until we recall that banking obligations are all in terms of money, and to protect themselves from the ruinous effects of inflation the banks had to anticipate such effects and charge rates accordingly. But what business man could burden himself with such charges? Only where a quick turnover was possible, or where the speculative possibilities were most alluring could loans carrying such a load be made.

Popular Outcry Against Rising Prices

THE evils of such price disturbances naturally caused popular outcry and led to all sorts of suggestions with regard to remedy or control. The constant increase of prices steadily hit the mass of people, and, as might have been expected, there has been chronic complaint of profiteering and extortion. Insistent demands have also been made for rigid regulation of prices. When business men, in order to safeguard their capital, endeavored to institute so-called "reproduction" prices, the government intervened and forbade such procedure on the theory that the workman could not hope to get wages on any such basis, and that he would be, therefore, under "reproduction prices," even to a greater extent than before the chief victim of inflation. In practice a compromise was worked out, but prices were regulated and machinery was provided summarily to try and to penalize individual guilty of charging excessive prices.

For some time past there has been a widespread demand that definite steps be taken to get back to a basis of gold valuation. It was finally clear to the great mass of people that inflation moves in the vicious spiral. Each fresh issue of paper money tended to push prices higher, and this in turn acted as a stimulus to further currency expansion. Laborers found that every advance in wages which they might wring from their employers was soon offset by renewed advances in the cost of living. Instead of gaining, they found themselves slipping

back, and so they have thought to protect themselves by having all wages paid on a gold-mark basis.

The government itself has seriously felt the recoil of inflation upon the public treasury. Heavy losses have been inflicted upon the government's revenues. The decline of the mark supplied a direct incentive to postpone the payment of taxes as long as possible. All too many taxpayers were influenced by this incentive, in some cases heavy penalties being regarded in the light of good investments. This, of course, simply swelled the government's deficit and gave rise to new issues of paper marks to make it good.

Banks Injured by Inflation

INFLATION has also been a source of difficulty to banks. At the beginning of the movement the banks seemed to gain because their deposit liabilities could be paid off in depreciated paper. But from the outset this seeming gain was in part neutralized by the privilege which borrowers also enjoyed of liquidating their loans with paper money. More than this, however, inflations tended to undermine the whole deposit business because nobody would willingly suffer the impairment of his funds that resulted from their lying idle in bank. Prussian savings bank deposits, for example, were at the end of 1920 only 16 per cent on a gold basis of what they had been in 1913. The paper currency tended to be more and more widely used even for large business transactions. Despite diminishing values on a gold basis, the sums handled by the banks steadily grew. Labor costs mounted because additional employees were necessary, and the ratio of profit to business done shrunk. But the German banks found a sheet anchor in their direct participation in many industries. In Germany the banks have always been more or less silent partners in the enterprises to which they advanced funds. Hence, many of their assets constituted physical properties which the storm of inflation could not shake. The purchases of real estate and the building programs which they have carried out also indicates a desire to obtain control of substantial values. Just what the real position of the banks is it may be difficult to say. It is known that they have large secret reserves, but their published statements with all their impressive billions, when reduced to a gold basis, show small real gains. Banking is the hand-maid of commerce. Banking cannot prosper when industry and trade are afflicted.

Quarrel Over Gold Valuation

SENTIMENT with respect to the introduction of gold valuation has been far from unanimous. Gold valuation has been strongly urged by the workers and by the university men. The workmen want stable wages. The academic men claim that with gold valuation some of the evils of inflation would be overcome. The lines that already employ gold-mark quotations benefit at the expense of the others, while a gradual extension of the system would also extend its benefits. The bankers, oddly enough, oppose gold valuation. They claim that, as advocated by the workers, it involves the impossible in wealth distribution, not enough

wealth is being produced to pay the gold wages which the men demand. Furthermore, the bankers fear that in many cases borrowers will be unable to obtain prices for their goods on a full gold basis, and hence repayment of loans would be threatened. The only remedy, as the bankers see it, is the immediate cessation of inflation. Thereafter, they believe, stabilization of prices will automatically follow.

Upheaval in Gold Distribution

THE shattering of the price structure carries in its train a revolutionary upheaval in the distribution of wealth. The middle class in Germany has been practically wiped out. Bondholders, annuitants and pensionnaires receiving relatively fixed incomes have been ruined. Some of the saddest cases of poverty involve those who a few years ago enjoyed positions of affluence. On the other hand, the land-owning Junkers of East Prussia, who before the war had their estates mortgaged up to the hilt, have cleaned up all their indebtedness with depreciated paper.

Even the stockholders, the ultimate owners of enterprises, have suffered great reductions in real incomes, despite the fantastic dividend percentages and the seeming "cutting of melons" in the issue of stock dividends. A German calculation of the dividends paid by the private corporations of the Reich shows that during 1922 the total in marks equalled ten times what was paid in 1913, but, on a gold basis, the actual value of the larger sum was only one-fiftieth of that of the smaller.

Salaried Classes Improverished

INFLATION has also impoverished the salaried classes. All over the world the "salaried classes" are more individualistic than the "working classes." In the ranks of the salaried classes individual differences count for more than they do among the "working classes." Differences in income are accordingly much more marked in the salaried groups. This very individualism, however, leaves the salaried classes more exposed and prevents them from benefiting from the mass bargaining which today characterizes the procedure of organized labor. Hence, while competition tends to sharpen the differences between the individuals making up the salaried classes, it does little to strengthen the bargaining power of the group as a whole when general conditions are going against them. The result is that in periods of stress there is a general leveling downward of the incomes received.

So marked has this phenomenon been in Germany that special note of it has been made by the government itself in some of its publications. Comparing last year with 1913, it is shown, for example, that in the metal trades the salaried groups and the highly skilled workers, who before the war enjoyed on the average an income 60 per cent higher than that of the unskilled workers, saw this advantage cut down to less than 10 per cent by the end of 1922. In railroading the decline was from 47 per cent to 6 per cent. Similar declines are noted in all the other great industrial divisions.

In like manner teachers, professors, government officials, etc., have been equally

hard hit. When the mark was at 150,000 to the dollar a Heidelberg professor told the writer that his monthly salary on a gold basis was \$10. A comparison made between similar German, Swiss and Norwegian government officials showed that, while before the war the Germans were better, or at least equally well, paid, in October of last year they received on a gold basis only a little better than one-half of what their neighbors received. The managing director of one of the larger German banks received in 1922 a weekly salary which would purchase seven suits of clothes. In July of this year his salary would purchase only two suits of clothes. All this shows not only arbitrary readjustment of wealth distribution, but also a decline of social surplus above mere subsistence.

Labor Has Been Exploited

WHILE salaried and skilled workers have seen their income advantages over unskilled labor nibbled away, labor as a class has also been subjected to a process of hard exploitation. German goods have been sold at ridiculous prices in foreign markets because home price adjustments lagged behind the decline of the mark in the world market. The German home market as a whole made the sacrifice, but that the laboring classes bore their share is shown by the steady advance in the cost of living only partially offset by wage increases. In July last the highest paid workers in Berlin, namely the metal workers, obtained a wage rate of 27,000 marks per hour. But at the same time, so far as figures were available, the cheapest cuts of meat sold for 45,000 marks per pound. In other words, the metal workers had to toil for almost two hours to earn a pound of meat!

In February of this year, which was well before the complete wreckage of the mark, the cost of living had risen 2643 per cent, as compared with peace times. The effect is shown in the diminution of consumption. According to the official figures covering the slaughtering of meat animals, the decline was 42 per cent in 1922 as compared with 1913. In 1913 the excess of imports over exports of meat cattle is given as 2.1 kilograms per capita. For Prussia alone it was excess of exports over imports of 0.4 kilograms per capita. For Prussia alone it was estimated that meat consumption declined 32.5 per cent from 1913 to 1922. Potatoes, beer and other of the principal articles of diet show similar declines in consumption.

Peasants Also Scathed

THE peasants and farmers, concerned with the original production of food products, are usually considered as being least injured by inflation. This is probably true, although it must not be supposed that they escape all suffering. In so far as they are debtors they benefit through the possibility of paying their debts with depreciated paper, but in the sale of their own products and in the purchase of manufactured goods they too are seriously inconvenienced. In Germany more than in the other continental countries the farmer depends directly upon the orderly marketing of his produce, and he is at the same time more broadly a purchaser of the finished products of industry. And, like all farmers, the bulk of

his income arises from the sale of crops during relatively restricted periods of the year, while his purchases have to be extended throughout the year. Hence the peasants have found out that, through the rapid advance of prices, the actual return in other goods received in final exchange for their agricultural products has been far below what they had a right to expect at the beginning. In other words, the peasants have suffered through the deterioration of the money kept on hand. This has led them to do what all others have done,

namely, to try to get rid of money received as quickly as possible, and haste in this direction is always accompanied by waste and loss. It is an error, therefore, to suppose that the peasantry in Germany has escaped the evils of inflation.

Social System Cracking

THE strain on Germany's economic life has been so great that the whole social system is cracking. All competent German observers regard disintegration as practi-

cally inevitable. Red communism is not so much the danger as is the tearing asunder of the social fabric. In this work of disintegration inflation has played a terribly effective part. Underlying inflation itself are, of course, the heavy external obligations and internal fiscal difficulties, but, irrespective of the reasons that may be advanced for it, the fact remains that inflation has wrecked the whole German economic structure so completely that decades will be required to restore it to good working order.

Projecting the Useful Application of Wealth

By RALPH HAYES

Director of the New York Community Trust

MEN count Benjamin Franklin among the sages of his time. And so he was—wise in his generation. But his wisdom failed him when he tried to project for all time the useful application of his wealth. To show his appreciation to the cities of Boston and Philadelphia, his will left £1,000 to each, with directions that it be loaned out at 5 per cent, in sums not exceeding £60, to "such young married artificers under the age of 25 as have served an apprenticeship in the said towns and faithfully fulfilled the duties required in their indentures."

Franklin figured that in 100 years, each fund would amount to approximately \$650,000 and he directed that about \$500,000 of each amount be spent. Philadelphia, he thought, instead of depending upon wells, should have drinking water conveyed through pipes and he therefore recommended that at the end of 100 years—which was in 1890—the waters of Wissahickon Creek be piped into the city to supply the inhabitants!

Unhappily for Mr. Franklin, the world didn't behave after his death as he thought it would. Five per cent, then ridiculously low interest, became later the market rate. Philadelphia did not wait a hundred years to install a water supply system. And, worst of all, the custom of apprenticeship under articles of indenture simply ceased to exist. The fund that Franklin thought would exceed \$600,000 in a century, amounted to less than \$100,000; and for more than a third of a century now in Philadelphia, not a cent has been loaned from the fund, because no one can be found to satisfy the terms that Franklin wrote into his will in 1790. That gift, made with the best of motives, is paralyzed because of the limitations put upon it.

In Courts 34 Years

A FEW months ago I went into the Chancery Division of the British High Court of Justice. The lawyers were arguing a case that had been started many years before. A woman of Bournemouth in 1889 had left £1,500 to endow a proposed

church, on condition that it promote "sound Evangelical doctrine." Her idea of sound Evangelical doctrine was that the minister should wear invariably a black gown in the pulpit, that there should be no chanting of the Psalms, and that no organ recitals should occur in the church. No minister might draw upon the income from the fund without first approving in writing all the conditions of the grant.

Now it happened that shortly after the lady's death, the wearing of black gowns was wholly discontinued. Since no incumbent thereafter could sign a statement agreeing to all conditions, both principal and income have been piling up for years. Meanwhile an effort to obtain relief through the courts was begun. That action was started some years before I was born, but the way of escape even from such admittedly unwise charitable gifts is long and tedious, so much so in this case that in London during June, I listened in upon the debate in the thirty-fourth year of its existence. Let us hope that the first third of a century was the hardest.

The same thing happens nearer home. St. Louis in the '40's was the "jumping off place" for westbound settlers starting over the Great American Desert. But many hundreds got no further than St. Louis—their funds or strength or courage were exhausted there. The mayor of the city, Byron Mullanphy, himself an emigrant, was moved by the pitiful situation of the '49ers, and when he died in 1851, he left one-third of his property to aid those pioneers stranded in St. Louis but "bound bona fide," as his will required, "to settle for a home in the West."

A few years after Mr. Mullanphy died, the railroads pushed beyond St. Louis; the gold craze died; the West became settled. The people Mullanphy described as his beneficiaries did not exist any more; but his fund for them did, and does. It amounts now to upwards of \$900,000; and for 50 years and more the commissioners of it have been trying to find legal ways of spending the income, fettered as they are by those terms.

There are literally hundreds of these cases of tragic waste, of utter obsolescence,

of complete perversion of the intentions of donors to serve their communities by philanthropic bequests.

To End the Evil

TO end this evil there has grown up a form of organization—first devised in Ohio by the late Judge Frederick Goff of Cleveland—known as the Community Trust. Ten of the more forward-looking banks and trust companies of New York have agreed to act as trustees of funds intended for public purposes, to invest the principal of such funds, and cooperatively to turn the income over to a common distribution committee, to supervise its expenditure. A majority of that committee is chosen by public sources and a minority of it by the associated banks and trust companies. The committee undertakes to carry out the wishes of a donor after his death and to protect his interests by keeping constant and perpetual check on disbursements in order to prevent a waste of income upon objects which passing time and changing conditions have made obsolete.

Already the New York Community Trust has had written into wills, for eventual distribution through it in future years, several hundreds of thousands of dollars. In course of time the Community Trust will have accumulated a substantial sum, which will be, in very fact, the Common-Wealth.

This plan of the Community Trust represents the effort—now happily countrywide, to devise the machinery for combating the Dead Hand, for preventing bequests from going wrong, for keeping income from public benefactions at work on the tasks that are important now.

If the United States were as fireproof as Europe, more than \$200,000,000 would be saved annually; that amount would buy twenty loaves of bread for every man, woman and child in the country.

Electricity has superseded the old kerosene lamp as a fire hazard; cheap insulation, amateur wiring, short circuits and arcs cost the United States a property loss of more than \$25,000,000 last year.

Uncle Sam Umpires Produce Game

By C. B. SHERMAN

U. S. Department of Agriculture

SUPPOSE a shipper after dispatching a car of high-quality produce, sold f.o.b., receives a statement that the vegetables are off-grade, and, not being worth the stipulated price, are rejected by the receiver.

Suppose a merchant receives a car of peaches so immature that he realizes profitable sale is impossible, whereas he had stipulated for a supply of U. S. No. 1 fruit which he had relied upon to fill a pressing demand.

Suppose a railway company in handling a car of produce notices deterioration which it believes due to defects in the fruit when shipped, but which conceivably may be made the basis of a claim for damage.

These are only a few of the conditions that daily invite delays, disputes and bad feeling in the handling of perishable food products on their long journeys from farm to table. Delays make for deterioration, waste and loss. Distance and intermediaries make for misunderstandings and, to those unscrupulous few who are looking for such chances, give opportunity for fraud.

"I'd like to get at the truth of that matter," says the shipper, who faces financial loss. "If I reject that car, there'll be a row," says the merchant, disappointed in his chance for a good sale. "I would really like to know just where the responsibility for that waste does rest," says the railroad official, when considering the claim.

Thus inspection of perishables at the market is sought by the shipper that he may know the condition of the goods if they arrive unsold, or if he feels they are discriminated against. It is sought by the city buyer or receiver when he feels that the goods received are for any reason less valuable than he had a right to expect, and it is sought by the railroad or other carrier as a protection against undue or unjust claims for damages.

It is right here that Uncle Sam steps in to umpire the game, if he is invited. For the food products inspection service is truly a service in that inspections are made only on the request of a financially interested party. Inspectors are stationed by the Federal Department of Agriculture at most of the principal terminal markets of the country. One of these inspectors will examine any shipment in question and furnish an accurate and disinterested report as to quality and condition of the produce or any other fact that affects value. This certificate affords a basis on which the disputants can settle their differences promptly and with fairness to both sides. If an amicable agreement cannot be reached, the

law has provided that these certificates of inspection be accepted as *prima facie* evidence in all United States Courts as to the true grade, quality or condition of the products when inspected. As a result, the certificate is usually made the basis of settlement out of court.

A fee of \$4 is charged, which approximately covers the cost of the service. Producers, shippers, carriers and dealers pay this cost willingly. When an inspection is made and paid for, any other interested party can get a copy of the certificate for \$1. Inspectors have been called to pass on more than eighty different commodities, and an average of

Northwest, the peach crop of North Carolina, and a large part of the potato crop are sold on grade. The volume of graded products is enormous, and the number of honest controversies over the question of grade is large. Inspections for quality usually involve grade, but they are often requested on products for which no grades are established. The complaint may involve maturity, color, freshness, flavor, odor, texture, freezing, condition of packages, or any factor which, by injuring the character or appearance of the product, tends to reduce its market value.

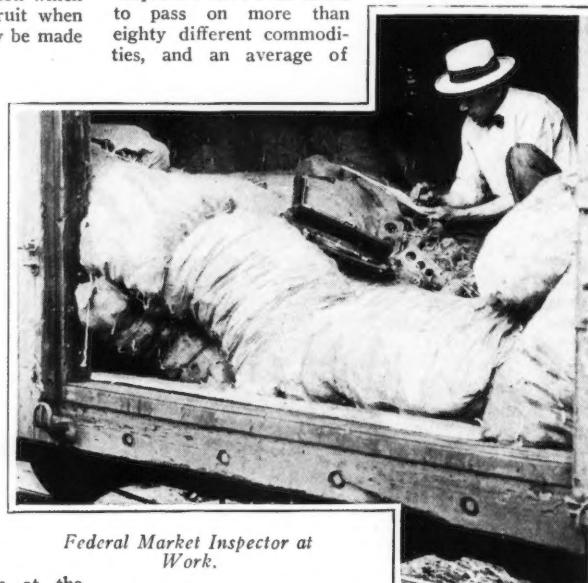
The question of quantity may be raised on account of breakage, slack or improperly filled packages, or excessive shrinkage caused by evaporation or decay. Pilfering while the products are on the way to market is another cause for controversy over quantity received.

Inspection for condition may be requested when perishables arrive with packages broken and the contents of the car upset and injured by rough handling on the road. Improper loading and the use of inadequate containers are frequent reasons for arrivals in bad mechanical condition, but general deterioration may result from deficient refrigeration, improper ventilation, delays in transit, freezing, disease infection and other causes. Many of the railroad companies make the inspection reports the basis of judgment in cases where loss and damage claims are filed by the shippers of perishables. Shippers feel that this basis is an impartial

one and relations between the shipper and his transportation agency remain cordial.

The economic value of the service is equaled by its moral value. The mere presence of an inspector at a terminal market will often ward off trouble. The probability of an inspection reduces the chance of sharp practice at either end of the shipment, which in turn tends to promote a greater degree of mutual confidence among shippers, carriers and commission merchants, a state of affairs greatly needed in the produce business. The number of unfair rejections has been materially decreased since the inspection service was inaugurated because through this impartial agency all parties to a trade are being shown that honesty is the best policy.

The inspector has no authority to say what disposition shall be made of any car under discussion nor to act as mediator in settling controversies or making adjustments. He is on the field as a peacemaker, for his province is to furnish a fair and impartial basis for the settlement of disputes.



Federal Market Inspector at Work.

30,000 cars is inspected, at market, each year. In fact, the demand for inspections is often greater than the present staff can meet. New inspectors are constantly being trained, as it is impossible to find men, either in the trade or the colleges, who are already fully qualified for the details of the work.

It is by no means an easy job. Inspectors must be in the markets early and late. Cars to be inspected are usually on the edge of towns, and the yards are far from attractive. When the car is located and opened, the inspector does not limit himself to a car-door job. The whole lot must be taken into consideration and the inspector crawls over and moves bags, crates and barrels, opening and examining as he goes. Decayed fruits and vegetables, broken boxes and barrels, spilled, oozing or malodorous goods constitute some of the disagreeable features, but the inspection service as a whole is marked by the enthusiasm of its members.

An increasing volume of fruits and vegetables is offered or contracted for on basis of grade. The boxed apple crop of the

Why I Am Opposed to Political Remedies for Farm Problems

By CHAS. D. KIRKPATRICK
The Walden Farm, Keota, Iowa

Proposed Remedies Ignore the Fact That Each Farm Is a One-Man Business. No Prosperity Through Artificial Markets Insuring Profits for Sand Hills and Swamps. Farmers Suffering from Too Much Credit Can Not Be Cured by More Credit.

THE farming community bulks large in the total population of our country, and the rural ailments can be limiting factors to the entire industrial and business world. Professor Furniss of Yale, who has recently published a book on foreign exchange, looking at the situation from the national and international point of view, has found the agricultural outlook "to constitute almost the controlling element in the economic prospect for our country."

The growth of various farm organization movements is evidence that farmers are hopeful of benefits from cooperative action, and the recent elections have given substantial majorities to candidates who sympathized and emphatically promised legislative relief. The agricultural press has been working overtime to herald the possibilities of concerted action. Legislative enactments promoting marketing associations have been secured, and more are demanded. Educational work through the Farm Bureau has been furthered by laws which require county supervisors to support them with public funds. Credit institutions of several kinds have been organized.

Wild Comparisons

IN the enthusiasm of debate, the farmer's situation is discounted and one might conclude from recent political speeches that a local farmers' union, or township farm bureau association, was as effective as a workingman's trade union in the city. The agricultural industry is compared with the United States Steel Corporation and the Ford Motor Co. as though it were controlled by a closely organized board of directors. The Federal Government, by conducting a successful military campaign, has appealed to our imaginations; being wonderfully capable in doing the impossible, by all means it ought to remedy our agricultural ills. Let it control, the enthusiasts say, crop acreages through the farm bureau; guarantee the market through a grain buying corporation, and restore the ratio of prices between the goods we sell and what we buy through manipulations of the Federal Reserve Board!

Most of this talk is the expression of a distress due to economic maladjustments rather than a departure from the usual independent spirit of the open country. With all the votes in favor of legislation making possible organized merchandising, the Iowa

farmer refuses to sign five-year contracts or surrender his judgment to the manager of a shipping association.

The proposal to apply political remedies carries the cooperative idea to a wholesale degree. It ignores the fact that each farm is a business in the hands of one man. I live in the midst of the best corn lands. The 320 acres I farm are equipped to feed hogs. When the market descends to the depths, competition falls heavier upon less favorably equipped and less fertile farms. That is to say, the marginal land is the first to be abandoned, and thereby the supply is adjusted to the demand.

Wait for the Weak

LEGISLATION intended to compel a highly specialized and properly organized business to wait for a weaker brother is without justice. And artificial markets that will insure profits for the sand hills of Nebraska, the cut-over stumps of Wisconsin and the swamps in the Mississippi River bottoms will keep us on the road to prosperity about as certainly as a steering wheel tied to the windshield would keep an automobile going South.

Only about five years ago the cry was for Federal legislation to promote land colonization whereby each soldier might receive a farm. Prominent economists explained how men of small means in the city could, with Governmental supervision and cooperation, make prosperous homes in the wilderness. With a market paying \$16 for hogs they argued the Government ought to hasten the extension of food production. For a while the papers were full of reports on the progress the Government was making in creating farms out of the millions of idle acres in our public domain.

Refused \$35,000 for a Stallion

WHEN the tide was coming in, many a farmer hesitated to believe his eyes. In 1917 old corn at \$2 per bushel was an unexpected and temporary incident of the war. In the confusion of quotations business experience seemed to lose its usefulness. The Government through the Food Administration seemed to be successful in establishing standards for price fixing. The new level of prices appeared to be permanent. The conviction that dollar corn was here to stay was the foundation of a tre-

mendous land boom. Then in all seriousness it was argued that corn could not go below a dollar because we could not afford to take less on such high-priced land. Adam Smith's observation 150 years ago that land prices are the result not the cause of produce prices was pretty much out of date. Mortgage loans were doubled, and about one farm in five loaded with \$100 or more per acre incumbrance. Within two and one-half miles of my home, Walden Farm, Keota, Iowa, 640 acres in five farms sold at an average of \$415 per acre. One man paid \$6,000 cash for a boar and another refused \$35,000 for a stallion. In the south part of the county an Angus bull cost \$36,000. One farmer and his family burned fifty gallons of gas per week. Something had to happen. A drop of \$1.50 per bushel in corn took the wind out of everybody. Two married men working for me this summer for \$50 per month, plus house, garden, chickens and cow, are undertaking to pay for farm machinery used in renting at the high time.

Enough Credit Now?

FARMERS on a sound footing already have all the funds they can use profitably. Those with mortgages to the ears are suffering from too much credit, a disease that is not cured by more credit. If overproduction is the cause of our low markets, the business ought not be expanded with more funds, even on good security, and if speculation is the root of the trouble, the banks cannot undertake to pay the debts of bankrupts. Solid banks with liquid reserves are our immediate protection against a serious financial crisis.

Since 1921, the unsatisfactory corn market has been attributed to an oversupply. Without realizing to what extent other causes may have aggravated the condition, we were sold on remedies that promised relief. Hogs were selling last year at the ratio of 100 pounds of pork to about seventeen bushels of corn, whereas the usual ratio is about 100 pounds pork to eleven bushels of corn. Therefore, with one accord more sows were bred, and this season the terminal markets were glutted with hogs. The farmers have disposed of the corn, and now with no old corn left in the crib, pork is selling for 100 pounds to less than eight bushels of corn. Meanwhile the State Legislature passed a warehouse act enabling

the farmer to borrow against his stored grain. With the surplus all gone, the well-meant legislation at present is a fifth wheel.

One Way Out

EVEN though there was grain to offer for security, most farmers find that governmental machinery is the most expensive equipment. Taxes amounting to a dollar or more per acre when rent is \$8 make the cost of government high enough. After all, a permanent agriculture must not depend upon legislative subsidies. We have the natural wealth and the native brains to use it. The possibilities for agriculture have scarcely been anticipated.

Last year, for illustration, some hog feeders joined ton-litter clubs, the rules requiring that the produce of one sow must weigh 2000 pounds at six months. The winners in 1922 produced around one and one-half tons, and this year the best litter weighed nearly 325 pounds per head at 180 days

and totaled nearly two tons. I have fed and marketed over 500 pigs in a calendar year and considered 200 pounds at 200 days a good average. Last year in producing 113,000 pounds of pork, I considered 4.68 pounds of feed per pound of gain a very satisfactory ratio; the ton-litter winner used less than 4.25 pounds of feed per pound of gain. Some of the largest profits in farming are obtained by gradual soil improvement through the use of legumes. Ten years ago in certain of my fields was begun a rotation of corn, corn, oats, clover. For the first few years after inaugurating this system the yields were not noticeably improved, but lately the average has been definitely advanced. These opportunities are the kind that must be developed if the corn belt farmer is to pay off his painfully pressing debts.

Wars of the first magnitude are not over when the last gun is fired; the economic disturbances are part of the cost. English farmers discovered this at the close of the

Napoleonic wars; it was true here after the Civil War. Legislation can never take the suffering out of bloodshed nor the sweat out of labor.

A paragraph from Coulter's *History of English Agriculture* describes the farmer's condition 100 years ago in terms that apply today:

"Many of the landowners were heavily in debt. Mortgages had been multiplied during the war, and while prices were high, payment of interest was easy; but when prices fell and the tenant threw up his farm, the landlord could not throw over the mortgage and the interest hung like a dead weight around his neck. . . . On the whole, in spite of exaggeration from interested motives, the distress for twenty years after the Battle of Waterloo was real and deep. . . . The progress, too, during that time was real and made, as was remarked, because of adversity."

Broadcasting by Banks

By C. H. HENDERSON

Advertising Manager, The Union Trust Co., Cleveland, Ohio

WE have always regarded a bank as a public service station for the performance of all possible conveniences for the public. There are limits, of course, but any service even remotely touching the financial phase of public service we regard as within our scope.

Something over a year ago, when radio broadcasting received its major impetus, we were among the early settlers and installed a high power, 500 watt station, with the immediate idea of furnishing a very complete financial news service to the business men, fellow bankers, and farmers within the radius of our reach. Little did we anticipate the real need of the immensity of the market which we would reach.

The financial service which we broadcast four times each day would cost the average banker or business man in one year many thousands of dollars. Yet by the installation of a receiving set he is enabled to receive the full benefit of this service with its far-flung sources of information.

Several hundred banks and business houses have installed receiving sets and we furnish them with a form on which they can enter the quotations for Liberty Bonds, livestock, foreign exchange, grain, New York bonds, fruits, and so on. We have received requests to broadcast something like 500 different stock issues and their quotations.

From the farmers we have received unusual enthusiasm, for it enables the farmer to go to his buyer forearmed with accurate knowledge of the prices quoted that day. It has brought him up-to-date and placed him in contact with a live business-news-gathering organization.

Banks scattered throughout a wide radius have installed receiving sets and supplied the data to their rural trade on request or through bulletin boards.

Business men have surprised us with the

enthusiasm of their response to our business service. We feel that our daytime broadcasting is one of our very real major banking services.

While the number of accounts which we can trace directly to our broadcasting could probably be counted on the fingers of one hand, a recent questionnaire to the officers of our bank firmly established the fact that radio broadcasting must continue.

A bank situated as we are in a center of farming and industry obtains its business from many hundreds of intricate channels. Our broadcasting station, I firmly believe, has done much to leave the impression throughout the district that we are a "mighty nice place to bank."

A farmer in a little cross-roads town, a trapper up in Saskatchewan, a group of Clevelanders in Florida, a business man in a neighboring manufacturing town, a banker in a small rural district—these are just types of people from whom we have had hundreds, yes thousands, of letters of appreciation.

Do we use the radio for advertising? Yes and no. We have felt, that direct advertising via the radio would be a serious mistake, because, after all, your listening public, the moment you begin to pull advertising, begins to fade out, and furthermore, even though they could not plug out, we would not feel that it was good policy to force our business upon them, preferring to sell them the good will of this bank through music and entertaining talks on subjects of popular interest.

Only recently we have been experimenting cautiously with educational talks on Cleveland's Better Business Commission, which has a direct relation to banks and banking. At another time we tried educational talks on the Yellowstone Park, to which our Travel Department was running an excursion, and these met with great success. But

Spring Meeting in Augusta, Ga.

THE Bon Air-Vanderbilt Hotel, Augusta, Ga., has been designated as the place for the next annual spring meeting of the executive council of the American Bankers' Association. The dates are April 28 to May 1, inclusive.

The entire first day of the meeting, Monday, April 28, will be taken up by meetings of the committees and commissions of the Association. Among these are the Administrative Committee, Finance Committee, Agricultural Commission, Commerce and Marine Commission, Economic Policy Commission, Public Relations Commission, Committee on Federal Legislation, Committee on Membership, Committee on Public Education, Committee on State Taxation, Special Committee on Taxation, Insurance Committee, Protective Committee, Committee on Branch Banking and Committee on State Legislation.

The sessions of the executive council will be held on Tuesday, April 29, forenoon and evening, and on the forenoons of Wednesday, April 30, and Thursday, May 1. The executive council, which is the governing body of the Association in the interim between the general conventions, is representative of every State, its members being elected by the membership of the Association in each State.

all told, we are broadcasting verbal education with a very sparing hand.

We have had substantial evidence that our broadcasting has proven a powerful advertisement for Cleveland as a city.

To sum up briefly, we do not recommend a broadcasting outfit to any banks or all banks. Conditions govern the desirability. We can only speak for ourselves in expressing our hearty appreciation of radio broadcasting as a means of expressing our policy to render the community a service. By-products of this have been too numerous to mention.

Farm Credit Survey

Over Half the Farmers in the Districts Investigated Depended Upon Costly Merchant Credit. It Is the Only Form of Credit Available to Many Southern Farmers. First Step Toward Better Conditions Is Better Contacts Between Farmers and Banks.

THE awakening of interest in the cost of merchant credit to farmers accentuates the value of a farm credit survey of 800 farms in North Carolina made by the Department of Agriculture of that State.

"North Carolina farmers," says the official report, "according to conservative estimates, contract debts amounting to more than \$200,000,000 annually, or an average of more than \$500 for every farmer in the State. The question of farm credit, therefore, is an exceedingly important one. A difference of one per cent in the average interest rate, for instance, would affect the net income from agriculture to an amount approximating \$2,000,000 each year.

"Interest rates incidentally constitute only a small part of the farmer's credit problem. Often he is unable to get credit at all, unable to get it when the use of a judicious amount of borrowed money might help him greatly to increase his production and change the results of his farming operations from loss to profit. Frequently he cannot get the term on his loan which will meet his needs. Perhaps he may be able to borrow for a term of six months only, when he requires a year for the growing and orderly marketing of his crop.

"Evidently the conditions under which farmers obtain credit will have a marked influence on the success of farming operations. For such conditions to be most satisfactory, three things are necessary: (1) correct credit legislation, (2) efficient use, by credit agencies, of facilities offered by such legislation, and (3) an understanding of the credit situation by farmers themselves."

From the report detailing the results of the survey, the following paragraphs are taken:

Merchandise Advances

"MORE than half (54.2 per cent) of all farmers in the three areas investigated relied on merchandise advances for some part of their credit needs in 1921. The number of farmers who obtained such advances was nearly three times as great as the number who borrowed cash for short terms. Also the total amount of merchant credit was nearly three times the amount of short-term cash credit.

"In the Wake County and Alleghany County areas less than one-half of the farmers used merchant credit, while more than three-fourths of those in the Scotland County area relied on it. Colored farmers, as would usually be expected, depended on merchandise advances to a much greater extent than the white farmers. Likewise, in all

areas, except Alleghany, tenants were more dependent on merchant credit than owners.

"Despite all that can be said against merchant credit in the South at present this is the only type of credit available to many farmers, especially tenants and colored operators. It is very expensive, but it is the only means of financing available to farmers who cannot borrow cash.

The average size of farmers' merchant-credit advances varied widely in the three areas surveyed and among the different classes of farmers. In Scotland County, for instance, the average account was practically \$400, while in Alleghany it was only \$55. The average for Wake County was \$256, very close to the general average, \$262, for all areas.

"The average interest rate charged for merchant credit by various agencies for the state was 22.3 per cent. Credit from local stores was the most expensive, costing an average of 26.6 per cent. Landlords came next in order, with a rate of 21.5 per cent. Factories and their agents are much lower, with rates of 14.2 and 17.0 per cent respectively. Colored farmers paid much higher rates than white farmers, because such a large percentage of the merchant credit received by colored farmers is for food supplies, which are bought on the installment plan over a long period of time. A full year's interest is charged on all purchases, though many of these purchases are made during the last few weeks before the bill is paid.

What It Is For

"FERTILIZER and living expenses" are the chief purposes for which merchant credit is extended.

"The foregoing facts indicate that credit conditions among North Carolina farmers are in much need of improvement. The farm mortgage situation is better than that for other kinds of credit and, furthermore, seems to be steadily improving. The Federal Land Bank of Columbia, S. C., is gradually taking over land mortgage loans needed for longer periods of time, and in addition, out-of-state financial institutions are now (May, 1923) offering such loans at reasonable rates.

"Credit advances for current expenses are those in which the greatest room for improvement exists. By far the larger part of such advances is obtained through the purchase of supplies on time, a practice which has long been recognized as extremely costly.

"Stores apparently handle more of such business than all other agencies combined, while banks carry less than one-sixth of the total. A large proportion of the credit

is supplied by fertilizer factories and their local agents, through the sale of fertilizer to farmers on time. That the farmers fail to obtain needed short-term credit direct from banks constitutes a handicap to agriculture in the State, since the rate on such loans is materially lower than on short-term loans from all other sources.

"The cost of credit from stores is more than 25 per cent when calculated on the basis of a yearly interest rate, while banks charge little more than 6 per cent. Farmers would profit greatly if they could place themselves in position to borrow from banks and pay their bills with cash. Merchants would be benefited, since they could then give their attention strictly to merchandising and avoid the risk of loss which they now assume. Bankers would also profit, due to the resulting improvement in farmers' financial condition and the increased business which these farmers would give the banks. The question arises, however, as to whether farmers can get further credit from banks. Why do they now count on stores to such an extent for accommodation?

Store Credit a Habit

"MANY ask for credit from stores out of habit and do not realize how high the charges are. There are others, however, who cannot obtain credit from banks. This is often due to the fact that no contact has been established and the farmer's credit rating has not been determined. Such cases must, of course, be considered separately from those in which farmers are known to be poor risks.

"Banks throughout the areas surveyed seemed to prefer character and general business ability over any tangible security in making loans.

"Banks cannot afford to take chances and the chief reason for the preponderance of loans on personal and endorsed notes is the fact that the borrowers are known to the bank's officers. A reputation for thrift, industry, and reliability is the best possible asset for a man wanting credit.

"The first step then in giving farmers better credit is to build up better contacts. This will require cooperation of county agents, extension men, farm organizations and the bankers themselves. Bankers in some sections have overcome much of this condition by having at their banks exhibits which attract farmers. Farmers so drawn to the banks often become friends and many times become customers. But the banks cannot do it all. Effort toward a better acquaintance is necessary on the part of farmers. Frankness regarding their business affairs is essential.

Credit Unions

IN some sections of the state small farmers who did not have sufficient assets to give them very high individual ratings have combined to form 'credit unions.' These unions are cooperative societies which are specially chartered under state law by the State Division of Markets. They may be formed by seven or more farmers, who put their savings in a common fund and who can in turn borrow from the fund whenever they need money for farming expenses. If the fund is not large enough to supply all requests for loans, the credit union borrows additional funds from a bank on its own note, supported by the notes of members who have borrowed

from the credit union. The credit union can obtain better terms than any one member because it offers the bank better security and because the loan will represent a more substantial sum. If the savings amount to more than members wish to borrow, the fund may be deposited in a bank at interest or may be invested in certain ways prescribed by law. Members pay low rates of interest for their loans and receive interest for their savings which are deposited. Sometimes such unions have had trouble getting started because their officers lacked business training, but as a general rule they have proved to be a decided benefit to the communities where they exist.

"One more method of cutting down on

the large store account consists in increasing the supply of garden truck and feeds grown on the farm. Even if cereals and hay might not be profitable as crops for market, they can be used to advantage for consumption on the farm. In Alleghany County, where farming was more nearly self-sufficing, the stores played a much smaller part in furnishing accommodations than in either of the other areas.

"Better use of legumes and livestock will also help some to reduce the need for large credit extensions. Fertilizer was the chief item for which merchant credit was required. Livestock and legumes will help either to reduce the amount spent for this purpose or to make the same amount produce larger returns."

The Shift from Cheap Money to Cheap Credit

By O. R. MCGUIRE, A.M., S.J.D.

CYCLES of financial unrest in the United States have been many. A few cycles have run their course within the memory of some readers, but there are other citizens whose memories do not reach so far back, and there are others still whose memories need refreshing, since there are signs abroad that a flood of financial nostrums is soon to be pressed for the consideration of both Congress and the country.

Roughly speaking, the periods of such unrest may be divided into: (1) The Revolutionary period; (2) The War of 1812 period; (3) The Van Buren period; (4) The Civil War period; (5) The Populist and Granger period; and (6) The World War period. There were intervening financial disturbances of more or less consequences, but the limits of this article will not permit of their consideration.

The whole of the period prior to the establishment of the Federal Reserve System may again be classified as one of struggle for and against redeemable bank or Government notes with adequate banks reserves as a subsidiary issue while the period subsequent thereto, in which we now are, may be classified as one of struggle over limited bank credit. In the one, cheap money was the issue, while in the other the issue is cheap credit.

As we all know, those in favor of redeemable paper currency and adequate, or at least substantial, bank reserves won the struggle by the establishment and maintenance of the National Banking System and by taxation out of existence of the note issues of state banks. The struggle over the currency principle had no sooner been decided than there was substituted, or added as a predominant feature, the banking principle and the contest continued with easy credit as the issue.

The line between the contending forces during the period intervening between the foundation of the country and the establishment of the Federal Reserve System oscillated to and fro across the years in somewhat the same manner as the line between almost equally divided forces on a battlefield and somewhat like the battle

line it left wreckage to mark the conflict.

The Revolutionary period saw Continental and State currency bought and sold in bales at the rate of one thousand for one—not so bad as the present-day German mark or Russian ruble, but bad enough. Pelatiah Webster, a contemporary of the period, said that depreciated paper money "polluted the equity of the laws, turned courts into engines of oppression, destroyed the fortunes of thousands, enervated trade, husbandry and manufactures, and went far to destroy the morality of the people." So disgusted were the people with such money that Morris, Wilson, Ellsworth and others who were members of the Constitutional Convention thought it a favorable moment to "shut and bar the door against paper money."

They thought that they had accomplished their purpose by writing into the fundamental law of the land a prohibition against the emission of bills of credit by the states and by giving to the Federal Government only express authority to coin money and to regulate the value thereof; however, they gave Congress authority to borrow money and with the stress of Civil War, the people learned through the Legal Tender cases that Congress had implied authority to issue legal tender money during either peace or war. Even the prohibition against the emission of bills of credit by a state had theretofore been weakened by the holding of the United States Supreme Court in *Briscoe v. The Commonwealth of Kentucky* that a state could own the entire capital stock of a bank which could issue paper money.

During the whole of the period intervening between the adoption of the Federal Constitution and the Civil War there were neither state nor Federal issues of legal tender paper money, but there were enormous issues of bank notes. It is not necessary to detail the recklessness of the banks during this period nor to cite statistics as to the volume of irredeemable bank notes that were forced upon the people. It is sufficient for present purposes to call attention to the fact and to observe that the First and Second United States Banks were

chartered in 1791 and 1816, respectively, for the avowed purpose, among other things, of bringing about a reduction of the volume of these bank issues and an improvement in their quality as well as to enforce curtailment of loaning operations. That they succeeded in their purpose is well known, but in doing so they earned the undying hatred of the advocates of cheap money and Congress, ever responsive to local influence, refused renewal of their charters.

Public memory is notoriously short lived; proof of this can be deduced from any number of public concerns such as indifference as to the exploitation of the national resources, and strangulation of the transportation systems of the country. Joy at relief from depreciated bank notes soon gave way to hatred of the system which brought the joy with denial of an unlimited amount of cheap money.

The Civil War period saw the establishment of the National Banking System with a sound currency principle written into the law and with provision for the establishment of the necessary machinery to enforce its observance. Henceforth the contest was not over redeemable or irredeemable bank notes, but was one over redeemable or irredeemable Government notes. The Greenbackers and Populists lost and then arose the absorbing issue of free and unlimited coinage of silver at the ratio of 16 to 1. In other words, a large element of our population were indifferent as to whether cheap money took the form of paper or silver so long as it could be had. Again the advocates of cheap money lost and it seemed that they had been forever silenced.

Not so, however; the adoption of the banking principle as the predominant feature of the Federal Reserve System made it possible to issue credit instruments of the banks for and based on the credit instruments of individuals. The believers in this political economy who saw a cure for all economic ills in cheap money now see such a cure in cheap credit. The future struggle over the control of credit may be as fierce as the past struggle over the control of money.

Influence of the Tariff on Prices

By PHILIP G. WRIGHT

Institute of Economics, Washington

Widely Divergent Claims May Be Expected When the Tariff Act of 1922 Becomes an Issue in the Presidential Campaign. Democrats Estimate a Three Billion Dollar Annual Increase in Cost of Living—Republicans Claim It Reduces Profits.

THE Act of Sept. 22, 1922—an act setting a new precedent as a high protective measure—has now been in effect over a year. A sufficient time has elapsed so that it should be possible to observe some of its effects. The act will undoubtedly be an important issue in the coming Presidential campaign, and probably no matter connected with the act will be more hotly disputed than its effect upon prices. On this issue Republican and Democratic spokesmen will make widely divergent statements to the utter confusion of the voter.

Democrats are now estimating that the cost of living has been increased by the act by not less than \$3,000,000,000 annually. They show that index numbers of wholesale prices increased from 138 on Jan. 1, 1922, to 160 on Jan. 1, 1923, an increase of 16 per cent. They point to an increase in the price of woolen fabrics and woolen garments, of hardware, of chemicals, and of sugar, and attribute all of these advances in price to the tariff.

In making estimates designed to show the extent to which the cost of living has been increased by the tariff, it is customary to assume that the price is increased by an amount equal to the increase in duty and then multiply the assumed increase in price by the total consumption. Republicans deny that such an increase in price necessarily takes place. They make extensive use of a report prepared for the Senate Committee on Finance, in which in the case of a great number of imported articles the following data are given: Country of origin, value in that country, transportation charges, the duty, the landed cost, the retail price in the United States and the percentage of retail price to landed cost. These percentages range from 153 to 2588, the average being 469. In the face of such enormous profits, it is absurd, so it is claimed, to argue that the tariff has increased prices. It has simply reduced to some extent these unconscionable profits. The consumer has not been affected.

The Price of Wheat

THE articles in the report, while covering a considerable range, are mostly manufactured products. But the Fordney-McCumber Act and its predecessor, the Emergency tariff, were largely inspired by the "farmer bloc" and were passed with a view to improving the prices of farm products. The Republicans, therefore, endeavor to show that it has in fact improved the price of farm products, and, when this

is impossible because the prices of such products, notably wheat, have declined, to show that they have not declined in the United States as much as in other countries. Therefore, it would appear, the increase of duties provided for in the act has had the remarkable property of increasing or maintaining prices when, in the interest of cultivating the good-will of a certain class of producers, namely, the farmers, it was deemed desirable to increase prices, and of not increasing prices when, in the interest of cultivating the good-will of consumers, it was deemed desirable not to increase prices. It would seem that a non-partisan discussion of the effect of the tariff on prices would be timely.

Unconvincing Arguments

ARGUMENTS based on price quotations, whether advanced by Republicans or Democrats, are unconvincing because so many other factors besides the tariff affect the price at which an article will sell. Among the most important of these factors are changes in demand, improvements in methods and processes of production, changes in the purchasing power of money, monopolistic control of supply, street rumors and speculation. It is impossible by statistical methods completely to isolate from the effects due to all these other factors the effect due to the tariff.

It is possible, however, to show on principles of economic theory the effect upon prices logically due to changes in the tariff, assuming that all of the other factors remain unchanged, and occasionally it is even possible to eliminate to a great extent from the mass of price data the effects due to other causes and verify the theoretic reasoning. But great care must be taken. A mere comparison of prices before and after the passage of a tariff act is valueless. To illustrate: There is no article for which more complete and accurate data are available than sugar. A comparison of the prices of sugar before and after the passage of successive tariff acts for the past thirty years shows that in some cases, when the duty has been raised, the price has also risen and in other cases it has fallen. Likewise, the price has sometimes risen and sometimes fallen when the duty has been lowered.

Equally unconvincing is the easy assumption that an increase in duty causes an equal increase in price. Even after eliminating all other factors, this assumption is unsound. A change in the rate of duty may logically have no effect upon price

or the change in price to be expected may be greater or less than the change in duty. In some cases even a very plausible argument may be advanced to show that an increase in duty should logically result in a decrease in price.

Obviously, when the article in question is not imported at all, or, if imported, is imported only in negligible quantities, an increase in the duty should have no effect on the price whatever, though a decrease might encourage imports and reduce the price. If the article is one of our major exports, it may be safely inferred that the domestic producer is independent of the tariff. No change that may be made in it will affect the price either way. There is one possible exception. The country is large and if freight charges constitute an important element in price, it may happen that even in the case of an industry which is on a secure export basis, an increase in duty will affect the price in some regions. A monopolized article may also be an exception.

Again, if the article is a raw material, an increase in duty may, through a process of pyramiding, affect the price of the finished product by an amount considerably greater than the increase in duty.

Finally, if the article is one for the production of which the United States possesses great natural advantages, the imposition of a duty may enable the new industry to get a foothold which without this aid it could not have gained. Once it is established on a firm basis, competition may reduce the price even below that of the foreign article. In this case the long-run effect of an increase in duty may perhaps be said without too great strain upon language to have caused a reduction in price.

The case where equality between change in duty and change in price comes nearest to being realized is that of a revenue article like tea or coffee. When a duty is imposed upon such articles, the price change to be expected is logically equal to the duty, though even in this case there are possible exceptions.

Sugar, Wool, Cutlery

THE cases of most interest, however, in connection with the last tariff act is that of a protected article in which the domestic product comes in active competition in the domestic market with a similar article of foreign production. Sugar, wool and cutlery are examples of this sort. In the case of such articles, what effect upon

the price should logically result from a change in the tariff?

It will be assumed in the following discussion that both the domestic and foreign industry are subject to free and active competition, and that such competition has reduced both the domestic and foreign prices to what may be called their normal level. Even where there is no actual monopoly, something equivalent to a monopoly price may result when the supply cannot keep pace with the demand. Something like this must have been the situation in the case of the imported articles cited in the report to the Senate Committee on Finance and referred to above. Under free competition such enormous profits could not long persist. Competing importers would eventually bring down the American price to some approach to the foreign price. The imposition of a duty would prevent so great a reduction and hence ultimately would hold the cost to the consumer at a figure higher than it would have been had the duty not been imposed.

To demonstrate the effect logically due to a change in the tariff, in the case of the class of articles discussed in this section, it is necessary to review briefly the process by which prices are fixed, irrespective of the tariff. Prices are said to be determined by the law of supply and demand. By the law of supply and demand is meant the principle that at a given instant of time a given market will absorb a certain quantity of a given commodity at a certain price. If the price had been greater, the market would have absorbed less; if the price had been lower the market would have absorbed more.

Under the law of supply and demand a monopolist may regulate the price through his control over supply. He may choose between selling a small quantity at a high price or a large quantity at a low price. He will presumably find by experiment what restriction of output yields him the greatest net return and stop at that figure.

But if the article is subject to competition, the supply, and hence the price, bears a relation to the cost of production. If all establishments produced at the same cost, this cost (assuming that in cost is included a normal competitive profit) would also be the normal price. For if at any time the market price were greater than the cost, more competitors would enter the field, increase the supply, and hence reduce the price. If the market price were less than the cost, the business would be unprofitable. Some of the competitors would retire, thus reducing the supply and increasing the price. The market price, therefore, while it might fluctuate, would tend to settle at a normal price which would equal the cost of production.

Element of Varying Costs

SUCH would be the case if there were only one cost of production. But all industries from which extensive data have been secured show about as many different costs of production as there are establishments. Here the relation between cost of production and supply is more complicated. Obviously, if the lowest cost establishments could or would increase their output indefinitely, their competition

would lower price, drive out their higher cost competitors, and finally so increase the supply that the price would settle to their own cost of production. They cannot, or at least do not, do this. The demand by consumers calls for more than they can produce. Competition among consumers, therefore, raises the price, thus permitting higher cost establishments to survive. Now, if the costs of all the establishments be collected and arranged in order, there will be found one which is just low enough to permit the establishment producing at that cost to continue from year to year. It just "breaks even." This producer may conveniently be called the "marginal producer" and his cost the "marginal cost." Obviously, this cost and the normal price must be equal, and about this cost the market price will fluctuate. If all producers could foretell their own costs and the conditions under which they were to compete, the marginal cost would clearly be also the highest cost, for no one would undertake to operate a business at a certain loss. As it is, however, there is always a portion of the output produced at a cost higher than the marginal. This "extra-marginal fringe" of producers, however, ordinarily contributes only a small part of the total supply. For the purposes of this discussion their existence may be forgotten and the marginal cost assumed to be the highest cost.

Clearly the marginal cost is not a fixed quantity. It depends upon conditions of supply and demand. A strengthening of demand tends to raise the price and permit less effective producers to survive. That is, it raises the marginal cost. A weakening of demand has a reverse effect. Improvements in processes of production tend to lower costs for all producers, increase profits and stimulate production. The increased supply lowers the price, drives out the former marginal producers and hence establishes a new marginal cost at a lower level. From this it appears that while economic forces are always tending to keep marginal cost and price equal, it is quite as true to say that price determines marginal cost as that marginal cost determines price. In truth, they are both determined by the conditions affecting demand, on the one hand, and the conditions affecting supply on the other.

Changes in Duty and Demand

PRICE, therefore, is fixed by the conditions of supply and demand. Hence, whatever effect a change in duty can have upon price, it must exercise through its effect upon supply and demand. Now, there is no reason why a change in duty should change the demand. Consumers have the same purchasing power and the same wants immediately after the passage of a tariff act as they had before. Nor does a change in duty necessarily bring about any immediate change in the supply. There is a certain stock of goods on hand derived from both domestic and foreign sources. A change in the tariff does not change this stock. Moreover, it takes producers some time to accommodate themselves to changed conditions. Especially is this true if the article in question is a product of the soil, where the producers stand committed to

a certain crop for the season. For that season substantially the same supply will be forthcoming from domestic sources as though the duty had not been changed. Foreign producers, also, stand committed to a fixed crop and, unless they can find some better market than the United States has become after the duty has been raised, they will export to the United States substantially the same quantities as before. Hence, there may be no immediate effect upon price. For a time it may be true, as protectionists claim, that the foreigner pays the whole duty.

But the increase in duty is an added cost to every foreign producer with respect to the American market. Hence, so long as the price in that market is unchanged, every foreign producer whose former cost was near the former marginal cost will be selling in that market at a loss, and ultimately will cease to compete. Imports will, therefore, diminish, thus diminishing the total supply in the American market. Hence the price will advance. At the advanced price it will become profitable for domestic producers whose former cost was higher than the former marginal cost to compete. Domestic production will increase, thus increasing the total supply and checking the rise in price. Eventually a new equilibrium will be brought about with a greater proportion of the supply derived from domestic sources and a smaller proportion of the supply derived from foreign sources. The elimination of the foreign high cost producers will establish a new foreign marginal cost and price lower than the former marginal cost and price. Hence, when the duty is added to the new foreign price, the resulting domestic price will be found to be higher than the former domestic price, but not higher by the full amount of the increase in duty.

Effect of a Two-Cent Increase

FOR example, suppose that before the change in duty the former marginal cost and price was 3 cents, the duty 1 cent, and the domestic price accordingly 4 cents. Suppose now that the duty is increased to 2 cents. The increased duty will shut out some of the highest cost foreign producers from the American market. Only those who can produce at a less cost can afford to sell in that market. Hence the foreign marginal cost and price will be lowered, say, to $2\frac{3}{4}$ cents. Adding the new duty to this price, the American price will become $4\frac{3}{4}$ cents. That is, the American price has been increased $\frac{3}{4}$ of a cent, an increase less than the increase in duty.

It thus appears that, in the case of articles produced at varying costs, when the duty is increased, the burden upon the American consumer is normally increased by an amount less than the increase in duty and that the remaining portion of this increase in duty is permanently borne by the foreigner.

How much less than the duty is the burden borne by American consumers depends upon the responsiveness of supply and demand to changes in price. If in response to a slight percentage increase in price a relatively large percentage decrease in quantity will be taken, the demand is said to be elastic, and if in response to a slight

percentage increase in price a relatively large percentage increase in supply will be forthcoming, the supply likewise may be said to be elastic. Without going into the details of the demonstration, it may be said that the more elastic the foreign supply and the more inelastic the domestic supply and demand, the greater will be the addition to price caused by a given increase in duty. On the other hand, the more inelastic the foreign supply and the more elastic the domestic supply and demand the less will be the addition to price caused by a given duty.

Or, avoiding the use of technical terms, it may be said in a general way that when imports are derived from a vast reservoir of foreign supply, while the domestic sources are already so fully exploited that an increased output can be obtained only at a considerably increased cost, and when the demand is insistent, consumers taking nearly the same quantity whatever the price, then the domestic price will be increased by virtually the full amount of the increase in duty.

On the other hand, if a large part of the foreign supply is produced at so high a cost as to be easily diverted from the American market by an additional burden, the foreign supply being at best restricted, and if the domestic output can be greatly increased at only a small increase in cost, while American consumers will quickly resort to substitutes, if the price rises, then the increase in price resulting from an increase in duty may be inappreciable.

Duty but One of Many Changes

IT must be emphasized that in all the foregoing reasoning it is assumed that the change in duty is the only change. But this is never the case. The conditions of supply and demand are constantly being changed by growth of population, changes in taste and fashion, improvements in methods, discoveries in the arts and sciences, changes in the purchasing power of money, business cycles, speculation, and temporary or permanent combinations among powerful groups of buyers or sellers.¹ As a change in price brought about by any or all of the above factors may easily exceed the change logically due to a change in the

(1) The disposition of human beings to compete and their disposition to combine are in the background of all economic discussion. On the basis of either motive a theoretic price can be demonstrated—a competitive price or a monopoly price. In practice there is a good deal of "slack" in either case. Especially is this true of retail price. The element of individual volition plays an important part. Dealers "mark up" or "mark down" in accordance with their own judgment. Slight changes in wholesale price are sometimes absorbed by the retailers, or they may be pyramided, sometimes enormously. Combination also plays an important part in price fixing. Trades maintain "associations" through which prices are fixed for the whole trade by "gentlemen's agreement." Even custom still influences price. Certain articles hold their customary price year in and year out with apparently little reference to changing conditions of supply and demand. Finally, the practice is general of fixing a price by adding a uniform percentage to the cost. When an article passes through many hands between the producer and the final consumer, this practice accounts for the pyramiding observable in times of rising prices. In spite of the perturbing influence of all these factors, which confessedly are often paramount in determining the immediate price from day to day, it is still believed that free competition, acting through the law of supply and demand, constitutes for the great mass of commodities a permanent and unremitting gravitational force which must be regarded as basic in any study of long-run price movements.

tariff a simple comparison of prices before and after the passage of a tariff act is obviously valueless as a method of demonstrating the effect of the tariff. Even a comparison of index numbers of wholesale prices is unconvincing. A high index number may be due to a lowering of the purchasing power of money, or it may be incident to the "prosperity" swing of the business cycle. Only by the use of refined statistical methods is it possible in some cases partially to eliminate the effects due to other factors and show a residual effect as due to the tariff. Such a study of sugar prices made in a recent publication of the Institute of Economics (Sugar in Relation to the Tariff, Chapter VI) shows at least that price changes have been in no wise inconsistent with the above reasoning.

While, therefore, the foregoing analysis shows that it is impossible to predict just what change in price will actually follow a change in the tariff, it does show that the change in duty is one of many factors, some of which tend to raise the price and others to lower it. Its effect may be obscured, but it is not annihilated, by the other factors. If the duty is increased, the effect of this one factor alone is to raise the price, and if the duty is decreased, to lower the price. These tendencies, though they may be concealed, are still operative. Hence, it may be said with confidence that when the duty is increased, the price will be higher than it would have been had the duty not been increased, and when the duty is decreased, the price will be lower than it would have been had the duty not been decreased.²

General Revision Produces New Factors

SO far in this discussion it has been assumed that only a single article has been affected by the change in duty. In the case of a general revision of the tariff with changes in rate affecting nearly all the items in all the schedules, new factors come into prominence which may be neglected when only a single article is concerned. It is possible that the increase in price of the protected articles may be to some extent offset by a decrease in price of the non-protected articles. A plausible theoretic argument may be advanced that such should be the case. Indeed, since the general level of prices depends upon the relative quantities of money and goods to be exchanged for one another, it is hard to see how a protective tariff can change the general level of prices at all, unless it can be shown that it affects one or both of these factors.

Now the object of a protective tariff is to stimulate domestic production at the expense of imports—at least, imports of goods which compete with domestic products. Under free trade, competition will in the long run direct industry in every country into the channels in which each country is most effective. From the products of

(2) Exceptions to this statement have been noted previously in this article.

(3) "Quantity of money" is here assumed to include all forms of purchasing power, metallic and paper currency, and various forms of credit. It is also assumed to include what economists call the "rapidity of circulation."

such industries each country will reserve enough to satisfy its own needs and will exchange the surplus for the products of other countries—the products in which each of the other countries is most effective. As a country pays for its imports with its exports, if a protective tariff cuts down imports, it must also cut down exports. The labor and capital thus set free from the exporting industries will normally be applied to producing at home the articles formerly imported. But the very fact that protection was required in these latter industries proves that in them the country is less effective than it was in the exporting industries (except as noted heretofore). That is, labor and capital are diverted from more to less effective channels of production. This is equivalent to saying that with the same total amount of labor and capital at its disposal, a nation will produce a less quantity of goods. With the same quantity of money and a less quantity of goods there should be a general rise in prices.

But though the quantity of goods is diminished, the population is not affected by the tariff. With the same quantity of money to be distributed among the same number of persons, average incomes are not affected. Therefore, since a protective tariff raises the general price level without raising the average income level, it raises the cost of living. The same result may be arrived at without introducing the money factor. A protective tariff means a less quantity of goods to distribute among the same number of people. Herein lies the fundamental economic argument against it.

Basic Difference Between Depression and Prosperity

IT may be conceded that if the advance in rates takes place during a period of depression, it may act as a stimulus to industry, especially if business men are indoctrinated with the protective gospel. It may thus usher in the up-swing of a business cycle popularly called "prosperity." The basic difference between a period of depression and a period of prosperity lies in the psychology of business men. Whatever restores confidence in the minds of this class of the community is likely to set the wheels of industry in motion. If business men believe in protection, the passage of a protective measure may be the needed shove to push them over the dead center. Moreover the general advance in prices which, as has been shown, should normally follow an increase in tariff rates tends for a time to accelerate the up-swing of business activity. This may be conceded, but it is in no wise inconsistent with the basic principle that in the long run a protective policy is wasteful of human effort. It may for a time stimulate men to greater effort, but the effort might have been more wisely directed.

H. Wendell Prout has been elected Treasurer of the Home Savings Bank, Boston, Massachusetts, to fill the vacancy caused by the promotion of Carl M. Spencer to the position of President. Nelson J. Bowers and Lindley A. Bond were elected Assistant Treasurers and together with Robert F. Nutting, now holding that office, complete the official organization of the bank.

Some of the Major Problems

By JAMES E. CLARK

Main Issues

PREDICTIONS are in order as to the nature of the principal issues in the coming Presidential campaign.

Among them are currency, the tariff, the enforcement of law, etc. However, one party may elect a principal issue only to have it more or less obscured by the issues and the political strategy of another party. But along whatever lines the battle may be waged, the fact remains, that the banker, being fundamentally interested, has opportunity to extend during the coming campaign a better understanding of economics. He has the opportunity to use his knowledge and his influence to point out the existence, and the constant operation of the overlaw of economics, by virtue of which business and trade operate and will continue to operate, despite all efforts to fix things otherwise by law. He can, if he will, help to save his people, his customers from those losses, sorrows and disappointments which always have and always must follow political action which seeks to do things without reckoning with the natural laws of business—without taking cognizance of the fact that in business, as in nature, there is an ebb and a flow, a self-correcting and compensating element which should not be ignored. If we fix something here in defiance of economic law, there will be a maladjustment elsewhere which will give a new annoyance, perhaps graver than that which we had hoped to get rid of.

And the irony of the matter is that those most enthusiastic for reforms in defiance of economic principles are pretty sure, when the uneconomic law is in operation, to shape their commercial dealings, not in the support of the grand regulatory scheme, but in the line of true economics.

If, perchance, we enacted a fiat money law, those who favored fiat money would, as depreciation set in, like the rest of the world, refuse to accept it at its face value. Their estimates would change from day to day, and by accepting the fiat money only at its real value, they would be obeying the natural economic law instead of sticking to the artificial standard which they had assisted in setting up.

As knowledge and understanding of the real nature of currency and banking extend, agitation over these subjects and matters relating thereto must proportionally decrease, for the reason that much of the disturbance is based not on the secure foundation of understanding—or even a desire for understanding—but on the false foundation of misconception and the vain effort to make unchangeable facts and unchangeable principles conform!

National Illusions

ILLUSIONS are not confined to individuals. Sometimes a misconception is nation-wide, and people tell it to each other

so often and with such fine effect that everyone believes it. One of the national illusions that the war cleared away was the "melting pot" notion, that all immigrants upon arrival cast off their ancestral traits, beliefs and prejudices and in spirit become like the signers of the Declaration of Independence.

For years there has been going the rounds the illusion that we are master economists, while the fact of the matter is that we might with equal propriety be classed as prodigious wasters. True there are enough instances of ingenious use of waste products to make a volume under the title of "*Wealth from Waste*." There are innumerable instances of making into salable commodities that which otherwise might be a loss. The economies of the manufacturer are, however, no more wonderful than the economies of the farm kitchens of other generations.

One outstanding difference is that the economies of the factory, being on a mammoth scale, rise to a magnificent height both in operation and in profit, while the kitchen economies standing alone become contemptible in a world accustomed to doing things on a grand scale.

But the conspicuous economies, whether in industry or in humanity, do not constitute the whole picture. If we consider the case fully, we shall dispel the illusion that we are master hands at economy. There is the waste of forest lands, appalling in its scope; the annual waste from fire, much of which is due to sheer carelessness; the waste of soil fertility; the waste of sustenance everywhere; the waste of effort in all walks of life due to ignorance even on the part of persons living in sight of schools, colleges, universities and libraries; the waste of whole lifetimes in doing things which contribute nothing to the advancement of self or anyone else in the world. There is the waste of water powers, and, like them running idly away, there is the waste of millions of dollars annually in the effort to get rich quick through the purchase of worthless securities. And finally there is the waste of human life on our streets and highways. Last year 13,875 persons were killed in automobile accidents in the United States, a total which exceeds the number killed in some of the well-known battles of history.

And this enumeration of our waste is not offered as a complete list, but only as a suggestive list.

Even from a purely commercial point of view, all these things are the concern of the banker, since waste is a drain upon his community, a limitation upon his community's progress and a limitation on his own progress.

From the humanitarian point of view such spectacular waste should do more than make an appeal to him to use his influence for its correction.

Consideration of it might even command his action!

Be Thankful Also

WHAT have we in America to be thankful for?

Those who have never been without a fire in winter or the certainty of getting beside one may not recall the fireplace, the register or the radiator as something to be thankful for.

Those who have never known famine may not readily think of being grateful over an abundance of ordinary food.

Those who have never experienced the loss of health may not at first recall that health is something to be thankful for every day and every hour, as well as on the day appointed for giving thanks.

Those who never have lived in fear of governmental tyrants or of martial raids may not readily recall all that the word liberty means—or to picture what the loss of liberty might mean.

Those who pity themselves because they are obliged to work may not readily recall that they should be thankful that they have work that they must do.

The average American might, if he set himself down to do it, wear out a pencil listing the things for which he should return thanks, and in the list he might properly include Thanksgiving Day—the institution as an index of the character of the Nation in which he lives, as an index of the great moral force which is a part of our lives—the background of our history, the guide of our present activities and our future endeavors. There is plenty of evidence out of which to frame a case for the decadence of morals, and the weakening of religious convictions, but it must always be recalled that it is the sense of outraged morality that helps to give to every infraction of law and every departure from the moral code its conspicuousness!

We are to be thankful that these things are the exceptions; that the great current of life and of thought is undefiled—that back of and a part of all our activities is that profound moral force—be a man's creed what it may—that built and guided this Nation.

Such ills as we have are after all but comparative. There are abundant opportunities for work and for enterprise—not stagnation; there is order and security, not anarchy; there is the friendship of the world—not its hatred—there is national health instead of pestilence, and there is freedom from such disasters as have stricken Japan.

What is there to be thankful for?

Most of all for hope and opportunity. Today is good, but tomorrow we can—if need be—begin a new life! Be thankful also and by this we can gauge ourselves—for the opportunity to help someone less fortunate.

Information on Fake Investments

By HUGH J. KENT

Functioning of the Better Business Bureau Idea Which Combats the Activities of Those Who Exchange Tricks for the Savings of the Credulous. Facts Available for Bankers and Their Customers. Help for Those Prudent Enough to Investigate.

BY the functioning of the Better Business Bureau of New York and similar organizations in the larger cities of the United States, small investors are being educated away from the spurious and toward the sound and income-producing security. The organization, backed by reputable concerns, has brought an additional means of protection to investors and legitimate business from loss of cash and confidence caused by the activities of fake promoters and brokers.

The New York Better Business Bureau, largest of more than forty such organizations in various parts of the country, has functioned so well that several groups are coordinating, through the bureau, their efforts to protect the uninformed investor. Operating without profit to itself, the organization has, during the eighteen months of its existence, functioned in the following ways:

It has gathered facts about doubtful merchandising of all forms of securities.

It has presented facts revealing abuses to the principals in conference or by letter and invited correction of wrongful practices, or

It has made public the gathered facts for the protection of business and individuals.

It has placed facts showing fraud before the District Attorney, the Attorney-General and other State or Federal authorities for such action as was necessary and possible.

It has served as a helpful agency in the interpretation and readjustment of practices in the merchandising of securities to the end that public confidence in investment and finance has been conserved and increased and unfair competition reduced.

Facts for the Public

IT has made facts about questionable schemes available to newspapers and other publications for the protection of readers of their news and advertising columns.

It has used such facts as a service to investors in the answering of individual inquiries before investment.

It has aided in constructive educational effort to inculcate the "Before You Invest, Investigate" habit, and has helped to spread a better understanding of the principles of sound investment.

Especially has the bureau furnished information to aid the Attorney-General of New York State in the enforcement of a law to prevent fraudulent securities practices. Under this law, known as the Martin Act, the Attorney-General can enjoin an issuing company or a dealer from continuing wrongfule acts. In numerous instances

such procedure has halted the operations of pilfering firms.

In one instance, the bureau found that a brokerage firm had posted to a woman investor a confirmation order of a certain date representing that it had sold for her account to other brokers 300 shares of Sears-Roebuck stock, eighty shares of New York Air Brake and 100 shares of California Packing Co. stock. Investigation developed that the transaction was fictitious, the order to sell having been given and then cancelled as soon as the confirmation was received. The confirmation, therefore, was in the hands of the "bucketing" brokers for use in satisfying their customers that they actually had executed an order in her behalf.

One of the numerous swindling schemes reported to the public by the bureau is one known as "power of attorney" forgery. By this scheme the prospect is solicited to purchase an unknown security upon a representation that it soon will be listed on one of the stock exchanges on a specified future date, and that the opening price will be much higher than the price at which the salesman offers it.

The salesman ascertains by inquiry that the prospective investor owns some standard stocks or bonds, whereupon he indicates that no cash will be required to complete the transaction if the owner will put up his seasoned securities as collateral. Assurance is given that after the alleged listing takes place the investor's collateral will be returned to him with a handsome profit from his new stock sold at an advanced price. The safety of the securities to be used as collateral is vouched for by the salesman who emphasizes the fact that the client is not asked to endorse them and hence they cannot be negotiated.

The investor's good securities are taken as "collateral" without endorsement, and the salesman places them in a large blank envelope and seals it in the presence of the purchaser. The salesman requests the investor to sign his name in the lower right hand corner of the envelope, with the explanation that this is merely for "identification purposes."

Slits the Envelope

AFTER leaving the purchaser, the salesman slits the envelope along the top and sides, converting it into a single sheet of paper bearing the signature of the owner of the securities. Later a "power of attorney" in legal form is typewritten above the signature, making it appear as an authentic legal instrument, to which is added

notarial acknowledgment. The securities are sold, and the transfer of the certificates is effected without the knowledge of the rightful owner and without arousing suspicion when passing through legitimate hands.

The bureau's experience has shown that the telephone is the favorite medium of communication for the fly-by-night broker. He finds it much safer than use of the mails. Scores of free-lance stock sharpers, who do not have offices, call their prospects from public pay stations, usually give a fictitious name and claim to be affiliated with some well-known Wall Street house. To prove to his prospect that he actually is connected with the house he names, the telephone-swindler suggests to his intended victim that he give him a ring at this particular house within half an hour. The "salesman" then goes to the customers' room of the brokerage house and, approaching the telephone operator, informs her that he is Mr. Blank and expects a telephone call. In due course the call arrives and the operator puts the expectant salesman on the wire. After thereby fixing his high-grade connection in the mind of his intended victim, the "salesman" makes an excuse to cut the conversation short and later goes to a public booth to complete the deal, promising big, quick profits. Usually he states that he will send his secretary or assistant to the house or office of his prospect with the certificates involved and to get the check required in payment. The check is cashed and the victim has only sad experience for his profit.

The sale of farm land divided into city lots and sold at enormous prices, on the strength of future industrial or other profit-making development, recently has been a sinkhole for millions of savings bank deposits. In New York a number of high-pressure selling organizations have been disposing of unimproved lots at Muscle Shoals, Ala., on the strength of Henry Ford's offer to take over the Government's nitrate plant and power dam on the Tennessee River at that place. One victim, a house servant, was inveigled into drawing \$990 out of her savings account and into paying \$50 a month until she had completed a contract for two lots, 25 x 100 feet each, costing her a total of \$3,960.

Publicity an Effective Weapon

IT is losses like these that the Better Business Bureau seeks to prevent. By publicity it encourages people to make inquiry before they obligate themselves to purchase. Much information is being dis-

(Concluded on page 307)

Penny Savings Society

By SAMUEL MARSH

Manager, Thrift Bureau, Northern Trust Company, Chicago

A CHICAGO bank is playing an important rôle in a program to educate the boys and girls of that city in the art of careful spending. A plan has been set in operation that enlists the cooperation of Social Service and other educational institutions in furnishing a means by which the child can save through the deposit of any amounts from one cent upward. The theory upon which the bank proceeded was that the child is the logical one to begin with in encouraging thrift, and that the child will make frequent deposits only if he can do so with small amounts, as he seldom holds pennies, nickels and dimes in his pocket long enough to accumulate a dollar for a real bank account.

It was this thought that brought into being the Penny Savings Society through which thousands of Chicago boys and girls are now saving money regularly, hundreds having already opened regular bank accounts.

The Penny Savings Plan, inaugurated by The Northern Trust Co., is spreading over the city and is enlisting the cooperation of various social settlement centers in training boys and girls in the art of careful spending. It reaches out a little farther than the usual thrift plan. It strikes a little deeper. It gets at the child in a very friendly and easy manner. The plan proceeds on the theory that the average boy seldom accumulates dollars in his pocket by the plain exercise of his own will power, but that if his ounce of will power is supplemented by the friendly counsel of his teacher or club director, and a plan that enables him to place on deposit small amounts such as pennies, nickels, dimes, etc., he is very apt soon to have a bank account. Small amounts that were formerly frittered away for candy and chewing gum each day now come into the Penny Savings Society and form the basis for real bank accounts for these boys and girls.

Plan of Operation

THE plan operates simply. A club desiring to cooperate receives an oak cabinet, which contains anywhere from 100 to 1000 ledger cards, depending upon the number of possible depositors. These cards are filed numerically and indexed with colored celluloid guides.

Cards ruled and numbered exactly the same, but of a different color, are also furnished the club and kept on hand, one to be given to each depositor when he opens an account in the society. This is called the pass card and is carried by the depositor in an envelope furnished for the purpose. When an account is opened, the name and address of the depositor are written alike on both the ledger and pass card, and the amount of the deposit is entered on

both cards. The ledger card is then refiled in its numerical order by the society treasurer and kept for ready reference when the child comes to make another deposit.

The accumulated deposits of all the members in each center are held by the treasurer of that particular society in trust in a general savings account, and, when an individual depositor accumulates a dollar or more, this amount is transferred by the treasurer into a savings account in the name of the individual depositor. The child may continue to make small deposits, which are later transferred to his or her regular savings account in the same manner.

As evidence of the bank's earnest desire to cooperate with every organization desiring to promote thrift among its members, the plan was specially adapted to meet the needs of the Boy Scout organization of Chicago.

The maximum number of scouts to a troop being thirty-two, a leather case for the ledger cards, snug enough to fit the scoutmaster's coat pocket, was supplied instead of the oak cabinet ordinarily furnished to social centers. This modification insures that wherever the scouts may be, whether at the regular meeting place, or around the camp fire on a hiking expedition, the same opportunity will be present for the thrifty scout to make a deposit to his penny savings account. As a rule, every member of a troop that adopts this plan soon becomes the owner of a regular bank account.

Progressive bankers are becoming more and more interested in the development of children's accounts. The old idea that it takes a long time for a child's account to be of value to a bank is passing away. Our school statistics show that a very large

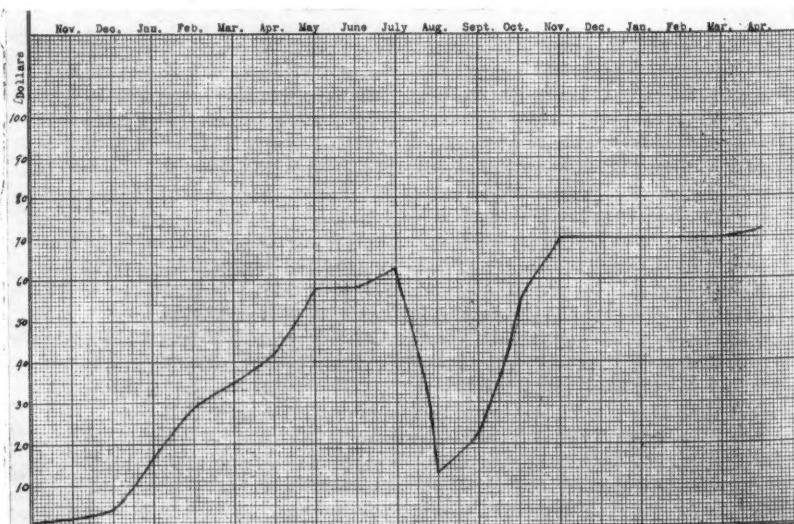
percentage of school children do not go on to high school or college, but become wage earners shortly after leaving school; so the banker who gets a fourteen-year-old boy's savings account today has a workingman's account in five years from now, and likewise the fifteen or sixteen-year-old girl may be a housekeeper in the same length of time.

Posters an Adjunct

A GOODLY proportion of the Penny Savings Society members show a keen interest in saving from the very start. Thrift posters are placed in these centers where the plan is operating, and these, together with the encouraging words of the society treasurer, tend to keep the accounts active.

The accompanying chart illustrates the growth of one of these Penny Savings accounts in an eighteen-month period. There is a constant increase up to \$60, then a withdrawal of \$50, after which the account immediately starts to build up again. This touches upon a very interesting point. The children are urged to save for some definite object. For instance: The suggestion is held out to the boy that if he wants to get a bicycle or radio outfit, he can do so by saving his money in the Penny Savings Society.

In the particular case shown here the account belonged to a girl of sixteen years. She saved consistently until her account reached \$60, then she withdrew \$50 of it and bought a violin. She said she had longed to take music lessons, but that her people had never felt able to provide them for her. By saving the money that ordinarily she spent foolishly she was able



The Growth of a Penny Account.

Foreign Policies of the Great British Banks

By LELAND REX ROBINSON

Contrasted Policies. Interlocking Directorates. Policy of Keeping Clear of "Foreign Entanglements." Limit of Direct Extension in Overseas Field May Have Been Reached. Entered Primarily for the Accommodation of Domestic Clients.

IN the September number of the JOURNAL, a brief description was given of the recent consolidation movement among British commercial banks, as a result of which no town of any size is now without the direct services of one or more among the five dominant institutions popularly known as the "Big Five." As there described, the principal purpose of these amalgamations has been to meet the larger credit needs of British industries. In broadening their clientele, the "Big Five" have found it both natural and necessary to offer their patrons a wide scope of foreign facilities, and it is of some interest to American bankers to study their present policies.

Very little of the spectacular is to be found in the quietly expanding operations of great British banks. Nevertheless, each one is feeling its way under the pressure of immediate service for its clients, and a body of sound principles is being hammered out of current experience in the constant adaptation of tried British agencies to post-war conditions. In this article a brief description will be attempted of the different policies pursued by leading banks in the United Kingdom, the present range of services offered, and the line of demarcation between the joint-stock banks and the London private bankers who continue so strong a factor in foreign trade financing.

Contrasted Policies

ONE fact of great interest is the recent entire abandonment of any attempt to operate foreign branches. Direct participation in oversea banking and exchange business is only carried on by the "Big Five" banks through subsidiary banks organized to operate in one or more foreign countries and owned outright by the parent institution. The distinction is legal and administrative, rather than economic or financial, but it brings up certain important considerations which are dealt with in the following paragraphs.

Moreover, not all of the "Big Five" follow the same policy in establishing foreign subsidiary banks. The greatest of them, the London Joint City and Midland, refrains altogether from direct participation or interest in institutions operating overseas. All of its foreign business—and this business is very extensive—is accomplished through overseas correspondents. Not even

by the interlocking directorate device, which is so common in the United Kingdom, does the Midland Bank attempt to exert a direct control over the business of any associated foreign bank.

On the other hand, the Westminster Bank (until a few months ago known as London County Westminster and Parr's) owns all of the stock of London County Westminster and Parr's Foreign Bank, which is active in France, Belgium and Spain. It holds stock in independent British banks operating in oversea areas, and maintains an interest in the management and policy of still other institutions on whose boards of directors its chairman or deputy chairmen serve. Barclays Bank owns Barclays Bank (Overseas), with branches in France, Germany and Algeria. It has a majority stock holding in the Anglo-Egyptian Bank, and the Colonial Bank keeps in step through an interlocking directorate arrangement.

Lloyds Bank is associated with the National Provincial and Union in the joint control of Lloyds and National Provincial Foreign Bank, which carries on activities in Belgium, France, Germany and Switzerland. Cox & Co. having recently been acquired by Lloyds, the branches of this venerable private banking firm in Egypt and India have virtually become arms of the greater bank. The London and River Plate Bank is practically owned outright by Lloyds, and considerable interests appear in certain British Colonial banks. The National Provincial and Union Bank also maintains extensive oversea connections.

Perhaps there is no better way of showing at a glance the foreign interests of the "Big Five" than by the following schematic arrangement. Lists of foreign agency and correspondent banks are not given, as these are very numerous and can readily be found in standard reference books.

The interlocking directorates cited below may or may not be of significance:

A. Barclays Bank

1. Barclays Bank (Overseas).
Branches—
France—Bordeaux, Boulogne, Cannes, Havre, Lyons, Marseilles, Mentone, Monte Carlo, Nice, Rouen.
Germany—Cologne (for accommodation of Army of Occupation.)
Algeria—Algiers, Oran.
Date of Organization, 1922.
Capital—Subscribed, £1,000,000; paid-up, £250,000.
2. Affiliated banks operating outside the United Kingdom and Ireland in which Barclays has

a controlling or important interest:
Anglo-Egyptian—Date of organization, 1887; paid-up capital, £600,000; percentage held by Barclays Bank, 94 per cent; date of acquisition of interest, 1920.

3. Interlocking directors in other important institutions operating overseas:
Through chairman or deputy chairman—Colonial Bank.
Through other directors—Bank of New Zealand (London committee); Banque d'Athènes; British Bank of South America; British Trade Corporation; National Bank of South Africa.

B. London Joint City and Midland Bank

Interlocking directors in important institutions operating overseas:
Through chairman or one of the deputy chairmen—None.

Through other directors—Anglo-Egyptian Bank; Bank of New Zealand (London board); Banque d'Athènes (London committee); British Trade Corporation; London and Brazilian Bank; Mercantile Bank of India; Standard Bank of South Africa.

C. Lloyds Bank

- 1a. Lloyds and National Provincial Foreign Bank:
Branches—
Belgium—Brussels, Antwerp.
France—Paris, Biarritz, Bordeaux, Cannes, Havre, Marseilles, Nice, Roubaix, Rouen, St. Jean de Luz.
Germany—Cologne (for accommodation of Army of Occupation).
Switzerland—Geneva.
Date of organization, 1911.
Capital—Subscribed, £1,200,000; paid-up, £480,000.
Percentage capital held by parent bank, 50 per cent.
- 1b. By taking over Cox & Co. the latter's branches are acquired, viz:
Egypt—Alexandria, Cairo.
India—Bombay, Calcutta, Karachi, Murree, Rangoon, Rawal Pindi, Srinagar, also the Indian branches of King, King & Co. and King, Hamilton & Co., acquired by Cox & Co. when they took over the banking business of Henry S. King & Co. in 1922.
Date of organization, 1758.
Capital, paid-up, £650,000.

2. Affiliated banks operating outside the United Kingdom and Ireland in which Lloyds has a controlling or important interest:
Bank of British West Africa—Date of organization, 1894; paid-up capital, £1,200,000; percentage held by Lloyds, 12½ per cent.
London and River Plate Bank—Date of organization, 1862; paid-up capital £2,040,000; percentage held by Lloyds, 99 per cent.
National Bank of New Zealand—Date of organization, 1872; paid-up capital £1,000,000; percentage held by Lloyds, 12 per cent.

3. Interlocking directors in other important institutions operating overseas:
Through the chairman or deputy chairman—Peninsular and Oriental Banking Corporation; British Italian Corporation.
Through other directors—Bank of Australasia; National Bank of New Zealand; National Bank of South Africa; Standard Bank of South Africa; Union Bank of Canada (London committee).

D. National Provincial and Union Bank

1. Lloyds and National Foreign Bank:
Branches, etc. (See under C.)
Percentage held by parent bank, 50 per cent.

(Continued on page 330)

Holiday Impressions of "Darkened" England

By CARL SNYDER

Unusual Crowds with Plenty of Money. The Retail Stores Are Prosperous. Evidences of Earnings. Comparison of Prices. Unemployment Problem Still Serious. More Than a Million Persons Receive Government Doles. English Exports.

In a month's traveling about in North Wales, Scotland and England, I believe I have never, in many years' acquaintance with holiday conditions there, seen greater crowds, nor greater spending, nor more difficulties in obtaining hotel and other accommodations. And the evidence seems to be that this is fairly general and that many undertakings are making larger profits than even in the height of the boom of 1920.

Of course, it would be absurd to suggest by this that there is not, in many of her chief lines of industry, very serious depression in England, and that this occasions heavy unemployment and presents a problem of grave concern to the Government and to her business men.

But exactly as in our own country it is assumed that, because certain types of industry are depressed, the whole industrial and commercial activity of the nation is correspondingly in decline.

First of all, as to the holiday crowds; as early experience was at Llandudno, a popular seaside resort in North Wales, where we thought to try one of the numerous *char-a-bancs* which ply everywhere, in every direction apparently, in England nowadays. But even early in the morning I tried eight different companies, operating perhaps twenty or twenty-five large *char-a-bancs*, each carrying from sixteen to twenty-six passengers, and there was not a seat to be had in a single coach. And this was just an ordinary day.

The next day at the little village of Bettws-y-Coed, quite in the heart of the Welsh country, I took a walk in the morning, and in the course of three-quarters of an hour on a country road I counted twenty large *char-a-bancs* go by, loaded to the last seat and carrying not less than a total of 500 passengers—on an ordinary day.

Fares Not Cheap

Of these *char-a-banc* lines there are now hundreds in England; scarce a fair-sized county town is without one or more lines. You can go all over the country and up into Scotland without setting foot on a railway, if you like this mode of locomotion. Nor need it be imagined that the fares are cheap. On the contrary, they seemed to me fairly dear. There were few fares for a day's run under \$3 to \$5 a seat, and sometimes more. And the main

body of the passengers were not American tourists. They were English, and they had plenty of money to spend.

What we saw in Wales we saw also in the lovely Lake Country and up in Scotland and all the way down. Nor were the railway carriages deserted. Quite the contrary. Most of the trains went well loaded.

Even in London in the last week of August, when "everybody" is away on vacation who can get away, and the deluge of American tourists has passed on (there has been, by the way, a marked falling off this year) we still find the hotels and restaurants fairly full, the more expensive types very full, and everywhere the evidence of the same heavy spending. Conservative English folks cannot make it out; they shake their heads over it all and wonder where all the money can come from.

Nor is this all merely on the surface, or so to speak just "jazz stuff." For example:

In the morning paper I read that Whiteleys Stores have distributed an extra interim dividend of 4 per cent and will earn fully as much as last year, which was 16 per cent regular, as against 10 per cent in the boom year of 1920 (also in 1921) and 4 per cent extra, 20 per cent in all, on their share capital. These great stores correspond a good deal to our department stores, and their business is a very reliable barometer of London retail trade.

Prosperous Retail Trade

REPORTS of prosperous retail trade are general, and apparently this is in no wise confined to London or to England. In Edinburgh we found the shops full of customers and loaded with beautiful goods, at not very low prices. In general, I should say that even in Edinburgh, the traditional home of thrift, retail prices average about double or more than that of the pre-war level. For a golf suit I paid seven guineas that certainly would not have cost me over four guineas before the great inflation. Ordinary business suits at the best tailors were quoted at from ten guineas to fifteen guineas or more, which again is about double the pre-war base. These prices are not the index of a profound "depression."

Confirming the evidence as to retail conditions in England I would add the following: One evening, walking up Oxford Street in London, I came out facing a large sign which read:

The second section of the new building of

SELFRIDGE'S STORES

Will be completed December 1. This will add another three acres to our floor space.

The interesting thing about this is that the first section of the new building was begun in the boom of 1919 and cost, I believe, nearly as much as the original building. The second section was begun last spring, in the face of the supposed general "depression" then prevailing.

With the completion of the third section, including the large rotunda, Selfridge's will be one of the largest stores in Europe. I can remember the rather serious time it had getting started some seventeen years ago. Then it seemed very far out of the Regent Street shopping district. Now almost the whole of the intervening space has been filled up with large stores, and on an ordinary midweek afternoon at the beginning of September, which is the height of the holiday season, when everybody who has the price is supposed to be out of town, it was almost impossible to make any headway along the sidewalks; hundreds of people were walking in the streets. This, again, did not look like very serious hard times.

This impression is deepened as you go down toward Regent Street and see that two of the largest Paris retail stores, the "Galleries Lafayette" and the "Louvre," have recently opened palatial branches in London, presumably, I suppose, to take advantage of the great depression. To meet this competition almost all of the large stores like Peter Robinson's, Jay's, Liberty's and the like have been putting up superb new buildings which have simply transformed Regent Street, to the great dismay of the lovers of old London, who liked the sort of thing it used to be.

It is true that a part of the tremendous building in Regent Street is due to the falling in of the Crown leases and the fact that the old buildings virtually had to be reconstructed. And it is also true that all of the large companies and corporations of England have been urged and encouraged by the Government and by business organizations to push ahead with all possible improvements and construction, in order to relieve unemployment. But even

at that I think one may see more new construction in the last three years in London than in at least the twelve or fifteen years preceding. This can scarcely be due merely to the end of Crown leases or to Government propaganda.

Unemployment Dole

ALL this is not saying that trade conditions are yet satisfactory, nor that the unemployment problem is not still serious. But it is serious in more than just the obvious way. More than a million persons are still receiving Government doles. But this does not mean that there is no demand for workers, for there is the clearest evidence that the demand is fair. The fact seems to be that there is a considerable sub-stratum of the English population that apparently would sooner live at the deadline of subsistence than do any regular work. And it is the effect of these doles on this type of the population that is a matter of very serious concern to the thoughtful people of England.

Furthermore, they had while I was there such a fantastic situation as this: The dock workers went on a big strike and a considerable number of them promptly went on the dole-receiving list. In other words, Government emergency aid was being employed to help win a large strike. The irony of this was sufficient to arouse a violent protest.

One cannot escape the feeling that one reason for the present depression in England, such as exists, is precisely what Simon Newcomb declared to be the universal cause of all hard times, and that was the high level of prices and wages. The index numbers of prices at wholesale give little clue to the level of retail prices, which are, I believe, as high if not higher, relatively, than the scale of retail prices in this country.

To take a very common example, I have for years, up to the summer of 1913, for an ordinary business suit, paid in London six or seven guineas, which was a rather high price as London clothes go. Two years ago, for identically the same thing at the same firm, a very reliable house and not gougers, I paid sixteen guineas. This year, in spite of the great decline in wholesale prices and supposedly in wages, and certainly in the price of cloth, I paid fourteen guineas.

And I believe that this would pretty fairly represent the general run as far as I could gauge it from various purchases. One might say that the average of retail prices was just about double pre-war, and that the decline in retail prices from the top notch reached in 1920 does not much exceed 20 per cent. This is a very different story from that shown by the index of prices at wholesale, and illustrates what I believe to be the fundamental difficulty with trade everywhere, in England and this country and elsewhere, namely, the high cost of doing business and the high level of wages. These same London tailors told me that, in spite of the depression, it was very hard to get first class tailors in London, and very hard to do anything with those they could get, and the quality of work not overly satisfactory.

SUCH is the endless story, as it seems to me, of the effect of printing money and

boosting the general level of prices, wages and costs, and creating thereby an atmosphere of artificial prosperity, extravagance and spending.

To take one salient instance: In the many years I have known England I am sure that I have never seen as much champagne drunk as I saw almost everywhere on this trip. It made no difference whether it was a smart little hotel in the heart of Wales, or up in Scotland, or in and about London; and the stuff is not cheap—there, again, just about double pre-war levels. This is not confined to tourists and Americans. The big restaurant of the Savoy Hotel was crowded every night till closing time. And the same was true of the popular restaurants like the big "Trocadero" in Piccadilly Circus; and the curious thing was that there was substantially no difference in the numbers of people in these two restaurants who were drinking champagne.

When we turn to the other side of the question, the curtailment of manufacturing and in foreign trade, we have a situation that gives the bankers and business men over there a great deal of uneasiness. Although the retail trade of London since 1914 has plainly undergone its normal or even more than normal increase, evident from the steady expansion in the size of the stores everywhere, England's foreign trade, as nearly as it can be measured from the disturbing factors of price changes, is not much above and in many ways below the 1913 level. England, for example, is taking scarce a half of her pre-war quantities of American cotton, and this year less than last.

All this hurts; and its continuance so long is arousing great antagonism in many quarters to the determined policy of the "die-hards," as they are called over there, to restore sterling to its former gold parity, regardless of consequences. This opposition includes many representative bankers, like Mr. McKenna, and, still more actively, a new economic group under the leadership of Maynard Keynes, which has recently obtained control of *The Nation*, and is making of it a very vigorous and brilliantly written journal. Mr. Keynes himself has been very outspoken in his criticism of the raising of the bank rate to 4 per cent.

Want a "Managed" Currency

A FURTHER interesting thing is that this group also heads a tendency toward opposing any return to the gold standard in England at all. They believe that the mint should be closed to gold, and gold employed by the banks solely for the purpose of international exchange, just as has been true practically for the last eight years.

They hold that it is far easier to maintain economic stability and general conditions of good trade, full employment and general well-being through a "managed currency," the amount of which should be determined by index numbers, than was usually possible under the gold standard. They believe with Mr. McKenna that a large part of the depression and unemployment in Europe in the last two years and more has been due to what they term "a ruinous policy of deflation," which has had a very

serious effect upon trade, and, of course, enormously increased the war-born burden of taxation. Nor does the ethical aspect of attempting to valorize in gold seven billions sterling of war debt, subscribed and paid for under a paper money regime, when the general level of prices and incomes was between two and three times the pre-war level, escape severe criticism as an unwarranted subsidy to bondholders.

Perhaps the most interesting thing about all this is that the defenders of the deflationary policy largely pin their hopes for its success upon a further heavy inflation in the United States, which would have, of course, the effect of a corresponding depreciation in the value of gold, and, therefore, if the effects of this could be largely avoided in England, would automatically bring sterling back nominally to par; not, indeed, to its old-time pre-war purchasing power, but simply to its nominal value in gold.

It was remarkable to see how very closely English bankers and financial writers scan conditions in the United States and the prospects for such inflation; and how well informed they are upon the probable effects of a low bank rate here, the possible passage of the soldier bonus and similar factors.

English Exports to Europe

NOW as to the "chaos" in Europe. First of all you read everywhere in England, as in America, that this deep depression in England is due to the utter prostration of trade in Europe, i.e., on the Continent. But the Cambridge Statistical Service has been making a careful analysis of recent English exports and finds that the proportions of these exports going to the Continent are slightly higher than the pre-war proportions, whilst those to India, South Africa, Australia and America are, if anything, a shade lower. In other words, very little change. And that is precisely what investigation discloses almost everywhere.

It is very clear from all the available evidence that there is no prostration in France, but on the contrary a rather high level of business activity. Everywhere the same reports of housing shortage, which rarely at any time, in any country, ever represented anything else than an excess of available spending power and unusually high general incomes.

And much of the same thing has been, until recently, true in Germany. A part of the implacable attitude of France toward Germany is due to the amount of building activity there, and the apparent prosperity which everyone of their observers finds in that country. There is very little doubt that, just as I found it two years ago, these reports of great prosperity in Germany are absurdly exaggerated, but not more exaggerated than the equally absurd reports of utter prostration and ruin.

Busy Industries

AS to the rest of Europe, either in the north or in the central part or in the south, I could learn of nothing more than a fair degree of normal industrial life. Unquestionably production is still somewhat below pre-war levels in many lines. But when a Krupp factory can turn a

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Domestic Market Opportunities

By BENJAMIN M. ANDERSON, JR., PH.D.
Economist of the Chase National Bank, New York

Concentration Upon the Domestic Market Improves the Condition of Agriculturists Over Those Whose Specialization Makes Them in Part Dependent Upon International Markets for Farm Products. The Advice to Increase Activity in Dairying.

AMERICAN agriculture, as a whole, appears to be more immediately dependent upon European demand than most other American interests, although copper and certain other raw material interests are also very directly and immediately affected.

Where American agriculture is able to concentrate upon the domestic market, however, its position is much better than where it is obliged to rely largely upon the international markets. Farmers in manufacturing states, producing vegetables, fruits, poultry, eggs, and dairy products for nearby cities, are in most cases doing well. In general, to the extent that the American farmer is able to concentrate upon his domestic markets, his position is very much better than where he is largely dependent upon the international markets. The American dairy interest in particular seems to have emancipated itself very largely from the foreign markets. Our excess of exports over imports of dairy products dwindled to the trifling amount of less than \$4,000,000 in 1922, but dairying is so little dependent upon foreign demand, and the power of the American people to consume dairy products is so great, that American dairying remains, on the whole, a prosperous industry despite the demoralization abroad.

Moreover, there appears to be ample opportunity for further consumption of dairy products in the United States. The Department of Agriculture states that the annual per capita consumption of whole milk in the United States has been about forty-three gallons as compared with about sixty-nine gallons in Sweden, sixty-eight in Denmark, and sixty-seven in Switzerland. The per capita consumption of cheese in the United States has been a little under four pounds as compared with twenty-six pounds in Switzerland, thirteen pounds in Holland, and about twelve pounds in Denmark.

Increased Consumption

THE comparison of consumption of milk and milk products in the United States and in other countries must not be taken to mean that we can expect to consume as much per capita as the other countries. To do so would mean that our people would have to dispense with certain other items of food which they may prefer, and which the greater per capita income of the United States makes it possible for them to obtain. The discrepancies are great enough, however, to justify the belief that even moderate price recessions in dairy products would

uncover a very potential demand in the United States and that there is, therefore, no reason to fear that a reasonable further increase in dairy production would break prices much.

The advice to American farmers to turn from the international markets to the domestic markets and, in particular, to increase their activity in dairying, poultry raising, fresh vegetables, and similar things, is sound advice within limits. It is especially sound for farmers living close to great centers of population. The most serious difficulty that stands in the way of it is the labor shortage in the United States, growing out of our immigration policy. Unable to get accustomed increases in the labor supply from Europe, our factories have been drawing in labor from the farms, leading to an acute shortage of farm labor in many regions and leading to very high wages for farm labor. Dairying requires more labor than many other forms of agriculture, and it is probable that the most serious limitation upon the expansion of the dairying industry is to be found in the labor situation.

To determine the comparative importance of dairying and other forms of agriculture is not easy. Our agricultural statistics have not been presented in a form that makes direct comparison of the importance of dairying and livestock, on the one hand, with crop production, on the other hand, possible. Both the Department of Agriculture and the Bureau of Census give us figures of "gross values" of farm products, with subdivisions for the different crops and some subdivisions for animals and animal products. For this discussion, I am using the figures of the Bureau of Census. They are not, of course, such recent figures as are the figures of the Department of Agriculture, and the best I can do is to take the years 1909 and 1919, whereas the Department of Agriculture figures are much more nearly current. The Census figures, however, supply more detail for the purpose in hand than do the Department of Agriculture figures.

Gross Values of Farm Products in 1909 and 1919

(Bureau of Census figures)
(In Millions of Dollars)

Kind of Product	Value 1909	Value 1919
Dairy Products	\$ 596	\$ 1,481
Chickens and Eggs	509	1,047
Other Livestock Products	72	138
Domestic Animals Sold or Slaughtered on Farms	1,833	3,511
Wheat	658	2,074
Corn	1,439	3,508
Oats	415	855

Barley	92	160
Hay and Forage (Excluding corn cut for forage)	826	2,316
Cotton and Cotton Seed	825	2,355
Rye	20	117
Potatoes, Irish	166	639
Potatoes, Sweet	35	125
Tobacco	104	444
Other Crops	651	2,162
Forest, Nursery and Greenhouse Products	251	492
Total Farm Products	8,494	21,426

Students will note that the gross values given for 1919 by the Bureau of the Census, \$21,426,000,000, are less by about \$2,000,000,000 than the figures given for the same year by the Department of Agriculture, whose figures for a series of years follow:

Gross Value of Farm Products (In millions of dollars)

Year	Total Gross Value	Crops	Animals and Animal Products
1914	\$9,895	\$6,112	\$3,783
1918	22,480	14,331	8,149
1919	23,787	15,423	8,364
1920	18,328	10,909	7,419
1921	12,402	6,934	5,468
1922	14,310	8,961	5,349

Students of the dairy industry will also note that the figure of \$1,481,000,000 for dairy products given by the Bureau of the Census for 1919 is about a billion dollars less than the figure for the total value of all dairy production which the Department of Agriculture has given us for the year 1921 at a time when dairy prices were lower. The Department of Agriculture figure for 1921 is roughly \$2,400,000,000. I am not able, with confidence, to relate this figure to the totals in the table of the Department of Agriculture given above. I can give no confident explanation of the discrepancy between the figures of the Department of Agriculture and the Census figures. My guess is that this discrepancy is due to the fact that the figures given in the Bureau of the Census table include only farm products, and not the products of dairies, and that there are some other omissions such, for example, as the milk, butter, etc., consumed by farmers themselves and the milk fed to animals on farms, particularly pigs and calves.

A Statistical Fallacy

CALL very special attention to the use of the phrase "gross values" (as distinguished from "net values") by both the Bureau of the Census and the Department of Agriculture in connection with these figures. This bears very definitely, for example, on current estimates that wheat is only 6 per cent of American farm production. A very gross statistical fallacy is in-

volved if we compare, or if we add together, the value of livestock and the value of crops, or compare the dairy products and the value of crops. The value of dairy products and the value of livestock include a very large part of the value of crops, since so much of the crops is fed to livestock and dairy animals. The proper comparison would use only the value added to the crops employed in feeding—raw material—by livestock production or dairy production. This would give us a net figure for livestock production or dairy production, but such a figure it is impossible to get.

Our Government statisticians have not been guilty of this fallacy. Thus the Bureau of the Census says explicitly, "There are many difficulties which stand in the way of obtaining a figure which will represent even approximately the net value of all farm products. . . . The gross value of farm products corresponds approximately to the gross value of products for a manufacturing industry, while the net value of farm products, if it could be obtained, would correspond to the 'value added by manufacture' which is shown in the reports of the census of manufactures. . . . For many purposes the gross value of farm products forms a very satisfactory index of the progress of agriculture or of the relative importance of the agricultural industry in different areas."

The figure for gross value of farm production, in other words, has certain significance as an index of change from year to year, and has certain significance as an index of the importance of agriculture in different parts of the country. It is not, however, significant of the actual cash returns to American agriculture, without great modification. It is, moreover, misleading in the extreme when these figures are used simply and directly to determine the relative importance of different kinds of agricultural production.

Wheat 6 Per Cent or 9.7 Per Cent

ON the basis of gross value figures for 1922, it has been estimated that wheat constitutes only 6 per cent of American farm production. The corresponding figures, based on the Census figures above, would show that wheat was about 7.8 per cent of agricultural production in 1909 and about 9.7 per cent in 1919. When the dairy figures in our tables are compared with wheat, they look very substantial indeed, smaller both in 1909 and 1919, but none the less in the same general class. When it is remembered, however, that the dairy values include bran and other by-products of wheat fed to the dairy animals and that

Membership Dues

Under the By-Laws, dues are payable in advance on September 1 and the Constitution provides that non-payment of dues within three months after they are due (November 30) shall result in forfeiture of membership. A very large percentage of the members have paid their dues, but those who through oversight or other causes have failed to remit are urged to do so promptly, and thus avoid unnecessary correspondence and delay in completing collections. Such cooperation will be appreciated.

A certificate-draft covering membership dues was forwarded to all members on September 1 together with an insert for the membership sign. On the reverse side of the certificate-draft the schedule of dues was printed, but if the certificate has been misplaced, members are referred to the schedule of dues on page 113 of the August, 1923, issue of the JOURNAL.

Seventy per cent of all banking institutions are members of The American Bankers Association and this is the best evidence that membership is valued.

Remittances should be forwarded in New York funds direct to the American Exchange National Bank, New York, making checks payable to the order of that institution.

they include a great deal of hay, corn, forage, etc., fed to the dairy animals, it is clear that we are dealing with duplications, and that much finer comparisons are needed before we reach a definite conclusion.

Eighty-five per cent of the corn is fed to livestock, 75 per cent of the oats, 70 per cent of barley, and 100 per cent of hay and forage. Cotton seed meal is fed to livestock. Substantial amounts of potatoes and fruits are fed to hogs. A good deal of milk is fed to animals, and in certain tables will appear both in the value of the milk production and again in the value of the animals fed. Poultry likewise makes

drafts on various crops. These agricultural figures are thus shot through with duplications, and great fallacies are involved when direct comparisons are made among them in many cases.

Since the able statisticians of the Department of Agriculture and of the Bureau of the Census have felt themselves unable to give us satisfactory figures of net values of farm products and have been obliged to content themselves with giving us (with proper cautions) the figures only for gross values, I shall certainly not attempt to work out net values. I shall content myself with concluding that wheat is very much more important than the 6 per cent figure of 1922 or the 9.7 per cent figure for 1919 would indicate. In general, these figures exaggerate the importance of livestock, poultry, dairying, etc., as compared with crops.

Sources of Cash

WHEAT, although less in value than corn, is very much more important in its own form as a source of cash to the farmer than corn in its own form is, because virtually all the wheat is sold, while 85 per cent of the corn is fed to livestock. The price of corn, in other words, is much less important to the grower of corn than are the prices of hogs, cattle, and other things which he produces with the corn, including milk.

From the standpoint of American agriculture, the great sources of cash are wheat, cotton, livestock and dairying. Dairying is important, very important. The gross value of dairy products in agriculture is very large, and is a source of current cash. The net values, eliminating the values of the crops consumed in dairying, are much smaller, but are still very large and important.

There is one further caution in connection with these agricultural figures. They are value figures, not quantity figures. Obviously, a sharp drop in the value of any given product, as wheat, would reduce the percentage importance to be attached to wheat. It is very curious reasoning which would accept conclusions of this kind, however. If the price of wheat today were 33 1-3 cents instead of a dollar per bushel, the statistical methods I have been criticizing would show that wheat was of very little importance indeed, amounting to only about 2 per cent of our farm production, and the conclusions from this would be that we need not bother at all about the price of wheat! I am not willing to purchase optimism regarding the agricultural situation by means of such statistical devices.

Trust Company Resources

Nearly fourteen and one-half billions of dollars is the total of resources held by the trust companies of the country, according to "Trust Companies of the United States," just published by the United States Mortgage & Trust Co. of New York. Institutions reporting numbered 2478, as compared with 2372 a year ago.

The actual figures for the year ending

June 30, last, are \$14,441,460,650, as compared with \$12,739,620,733, in 1922, representing a gain of \$1,701,839,917. Deposits climbed from \$10,470,475,000 to \$11,828,983,-

000. California and Ohio for the first time report trust company assets in excess of a billion dollars each. The figures for the five leading States are as follows:

	1922	1923	Gain
New York	\$3,556,356,518	\$3,931,340,448	\$374,983,930
Pennsylvania	1,563,473,528	1,832,326,397	268,852,869
Illinois	1,263,537,383	1,390,964,012	127,426,629
California	879,831,752	1,200,895,428	321,063,676
Ohio	970,778,773	1,133,962,485	163,183,712

Opinions of the General Counsel

By THOMAS B. PATON

Validity of Note to Foreign Corporation

THE sale of machines by a manufacturing corporation in New York to a resident of Alabama is a transaction of interstate commerce, free from the control of the State law requiring a foreign corporation to obtain a permit to do business in the State and making void all contracts in violation of the statute; hence a note taken in payment of such machines is not void, but is enforceable either by the payee or by a bank which has discounted same for the payee.

From New York:—A corporation named "A" manufacturing goods in the State of New York, incorporated under the laws of Delaware, sold some machines in the State of Alabama, the machines being sold to Mr. "B," "A" taking his notes, together with a contract for the unpaid balance.

The notes taken by "A" were discounted by this bank in due course for value, but the attorneys in Alabama claim that they are not good in the hands of a third party, which is the above mentioned bank, and are subject to the same defenses as the company which sold the machines. They refer to Section 3653 of the 1907 Code of Alabama stating that no foreign corporations shall transact business in Alabama without first procuring a license and permit, and that contracts with a corporation not thus licensed are null and void, and it has been held by the Supreme Court of Alabama that notes are void under the above statute, even in the hands of an innocent holder.

We are very anxious to have your opinion regarding this matter, as it strikes us that a bank taking customers' notes payable in Alabama should not have to inquire as to whether the concern discounting the notes has secured a permit to do business in Alabama, nor should the bank be subject to all defenses to which the customer would be subject.

The Supreme Court of Alabama has held in a number of cases that a negotiable note issuing out of and resting upon a contract declared to be absolutely void by statute cannot be enforced, even by a bona fide purchaser for value before maturity.

In the case of *Jones v. Martin*, 74 So. (Ala.) 761, it was held that the sale of its corporate stock by a foreign corporation, made in Alabama by an agent of the corporation for the corporation, was engaging in or transacting business in the State, and that a note given in consideration of such sale when, at the time, the corporation had not procured the statutory permit, was absolutely void and could not be enforced even by an innocent purchaser for value before maturity. The court said "under the uniform holding of the Supreme Court of this State, a negotiable note issuing out of and resting on a contract thus expressly declared to be absolutely void, cannot be enforced even by a bona fide purchaser for value without notice." The court cites a number of earlier decisions in the State to the same effect. The above case was decided under Section 3653 of the Code of 1907, referred to in your letter. A more recent decision to the same effect is *Whitehead v. Coker*, 76 So. (Ala.) 484, holding that the innocent purchaser before maturity of a note given to an unlicensed physician could not recover of the maker, in view of the statute prohibiting the unlicensed practice of medicine and de-

claring contracts made in violation of such statute void.

If the transaction outlined in your letter, in which the note was taken, is to be held a transaction of business by a foreign corporation in Alabama without a permit, then neither the payee nor your bank as holder in due course would have any enforceable rights.

But I am inclined to think, after an examination of the Alabama cases, that the sale of machines to a resident of Alabama by a manufacturing corporation located in New York, and the taking of the purchaser's notes therefor, would not be a doing of business in the State in violation of its statutes, but would be a transaction of interstate commerce over which the State has no control. If so, such transaction would not be in violation of the Alabama statutes, and the note would be enforceable either by the payee or, where discounted by your bank, by the latter.

In *Citizens National Bank v. Buchheit*, 71 So. (Ala.) 82, the court said:

"It is manifest that it is not the purpose of these statutes to interfere with transactions of strictly interstate commerce (Code 1907, Sec. 3650), and they must be so enforced as not to unreasonably burden such commerce, or the right of foreign corporations to invoke the power and authority of the courts to recover the fruits thereof. The expression found in some of our cases, to the effect that such corporations cannot sue in the courts of this State without qualifying under the Constitution and statutes, is too broad in its scope. Such a rule, if strictly enforced, would result in imposing unreasonable restraint on acts of interstate commerce. *Sioux Remedy Co. v. F. M. Cope*, 235 U. S. 197."

This case is practically on all fours with the transaction stated by you. The president of the Lipps Bottle-Washer Co., a Tennessee corporation, personally went into Alabama and, acting as agent of his corporation, solicited and received an order from one Buchheit for a washing machine, which was forwarded to the Tennessee corporation. The machine was shipped two months later from Tennessee to Buchheit in Alabama, and the president of the corporation helped in setting it up, and after its operation was demonstrated, notes were given, payable to the Tennessee corporation, delivered to its president in Alabama. These notes were sued upon by a Tennessee bank, to which they had been transferred for value. The court said:

"If, in fact, the machine was ordered through the agent of the corporation, and the order was taken in Alabama and sent in to the home office of the corporation in Chattanooga, Tenn., and there accepted by the corporation, and the machine was built in Chattanooga and shipped to Alabama and delivered to the defendant in pursuance of a contract thus made, it was an interstate transaction; and the mere execution of the notes and their delivery to Downs in Alabama did not embody the exercise of a corporate function by the payee of the notes, and would not change the conclusion. *Beard v. Union & American Publishing Co.*, 71 Ala. 60. Neither would the fact that Downs, on his own account, agreed to assemble and install the machine. This point was taken by the demurrer, and it should have been sustained. *Scharfenburg v. Town of New Decatur*, 155 Ala. 651, 47 South. 95; *Kershaw v. McKown*, 68 South. 559; *Sioux Remedy Co. v. F. M. Cope*, supra. *** We are led to the conclusion that to hold, on the facts disclosed by the record in this case, that the payee corporation was doing business in Alabama in violation of the Constitution and statutes, would be applying them so as to constitute an unreasonable

burden in restraint of interstate commerce. *Sioux Remedy Co. v. F. M. Cope*, supra."

Certain expressions of the court in this case to the effect that the fact that a contract was in violation of the statute would be no defense to the enforcement of a note based thereon, when in the hands of an innocent purchaser, were afterward characterized as unsound by the Supreme Court in the later case of *Jones v. Martin*, supra, and the case was modified to this extent; but the main rule still stands that the taking of an order for goods by an agent of a foreign corporation not located in Alabama, but traveling therein, which is transmitted to the home office and the goods thereafter shipped to the purchaser, who gives his note therefor in Alabama, to the agent of the foreign corporation, is a transaction of interstate commerce and beyond the control of the State law. This, as I understand, is your case.

In the later case of *Puffer Mfg. Co. v. Kelly*, 73 So. (Ala.) 403, a foreign corporation in Massachusetts sued to recover the price of a soda fountain sold and shipped from its factory in Boston to the defendant at Montgomery, Ala. The defense was non-compliance with the foreign corporation statutes. The court said:

"It is, of course, conceded that the mere sale and delivery of the soda fountain would have been interstate commerce, and not subject to local laws. The contract, however, provides that the vendor shall 'install free, no plumbing or electrical work included,' and, further, that the seller will take in exchange an old soda fountain and appurtenances in use by the vendee at Montgomery.

"The decisive question, therefore, is whether these provisions, or either of them, contemplate and embrace, in their reasonable performance, the transaction of local business in Alabama as distinguished from an act of commerce between two States. ***

"The question under consideration has been, in various forms, a frequent subject of decision in the American courts, and the consensus of judicial opinion is that the mere installation of machinery or other apparatus, including the assembly of its completed and adjusted parts, and its erection in its place for use, is but an incident of the sale, and is not, in that connection, an act of local business, if the sale and delivery is itself an act of interstate commerce. ***

"We are of the opinion, also, that the subsidiary stipulation that plaintiff should take defendant's old fountain in exchange in abatement of the purchase price in no wise affects the result. Conceding that the contract required plaintiff to take possession of the old fountain in Montgomery, and pack and transport it to Massachusetts, nevertheless this was also a mere incident to an act of interstate commerce, and not a separable act of local business. Moreover, the exchange of the old fountain was but a mode of payment in part, the performance of which was not essential to the completion of the main transaction, and the enforcement of which is not involved in this suit."

In *Tyson v. Jennings Produce Co.*, 77 So. (Ala.) 986, a foreign corporation wired a factor located in Alabama asking him to sell potatoes and later shipped him potatoes which were sold. In a suit against the factor in Alabama, the rule, declared by a majority of the Supreme Court, was that the factor was not an agent through whom the foreign corporation was doing business in the State within the meaning of the Constitution and statutes, but that the transaction was governed by the laws relative to interstate commerce. The court said:

"The decisions of the courts are not in entire accord upon this question, but it has been generally held that, where a foreign corporation places

its product in the hands of local merchants in the domestic State, to be sold on commission, the foreign corporation is not doing business in the domestic State."

A dissenting minority argued that the evidence showed a consignment only and not a sale of potatoes to the factor who was the agent of the foreign corporation; that the acts of the agent were the acts of the principal, and that the services rendered by the agent were not so connected with the subject sold as to make them a portion of interstate commerce, but that the foreign corporation was doing business in the State through its agent.

In *Covey Cotton Oil Co. v. Bank of Fort Gaines*, 74 So. (Ala.) 87, the court, in holding that the execution of a mortgage in Alabama to a foreign corporation to secure a debt contracted in the domicile of the corporation was not a doing business in the State, said:

"In the recent case of *Citizens' National Bank v. Buechit*, 71 South, 82, we had occasion to consider this question and there held that the fact that a note was executed and delivered to an agent of a foreign corporation for an indebtedness contracted in Tennessee was not doing business by the corporation in this State in violation of the statutes. This case has recently been reviewed by the Supreme Court and affirmed. And in the more recent case of *Puffer Mfg. Co. v. Kelly*, 73 South, 403, present term, the Supreme Court holds that when an act, though done in this State, is a mere incident to the transaction of interstate commerce, it is not a violation of the statutes."

Quite a full reference has been made to the more recent Alabama cases in an endeavor to point out the distinction, recognized by the Alabama courts, between the doing of intrastate business by a foreign corporation in Alabama, which is subject to the regulatory laws and penalties and transactions of interstate commerce between foreign corporations and residents of Alabama, which are not subject to such laws. In the light of these decisions, I think the sale of machines by the foreign corporation to a resident of Alabama and the taking of his notes therefor would be held a transaction of interstate commerce and not a doing business in the State; hence the notes would not be void under the Alabama statute because the foreign corporation had no permit, but would be enforceable.

Wrongful Protest of Check

A'S check payable to B for \$98.25 was deposited and credit given for that amount, but the bank erroneously listed the check for collection at \$98.28, and after passing through intermediate banks, payment was demanded of that amount, tender of the correct amount refused and the check was protested. A telegram from the drawer to the payee resulted. Question arises as to responsibility for the cost of protest and telegram. Opinion:—The check was wrongly protested and the bank authorizing or directing the protest is responsible for the cost thereof. The sending of telegram by drawer to payee was not legally necessary, and the cost should probably be borne by the drawer. But as a wrongful protest gives the drawer a right of action for damages for injury to his credit, which, however, is not asserted in this case, and as the effect of the telegram was to restore the drawer's credit with the payee, it would seem that the expense of such telegram as well as the protest fee should be borne by the bank which caused

or directed the wrongful protest. Whether the bank committing the initial error of instructing the collection of a wrong amount, or the local bank making the subsequent error of wrongful protest, is responsible for the protest fees depends upon whether the local bank caused the protest on its own initiative or pursuant to instruction of the initial bank.

From Florida:—There was recently presented to us for payment by the X National Bank of this city a check drawn on us for \$98.25 by one of our depositors, which they included in their clearings as \$98.28 and on which appeared lead pencil figures for this amount which were written by someone other than the drawer and presumably by someone connected with one of the banks which handled the check, it having been indorsed by the X National Bank, the Federal Reserve Bank of Jacksonville, Florida, the Y Bank of St. Louis, Mo., and also by the payee. We returned the check to the X National Bank and advised them that we could pay on it only the correct amount of \$98.25, which was expressed plainly enough in both figures and the body of the check, a check writer having been used to express the amount in the body of the check, but they felt that they could not accept this amount for the reason that the check was received by them from the Federal Reserve Bank as \$98.28; and they then protested the check and returned it to the Federal Reserve Bank. A notice of the protest was sent to the drawer of the check, who communicated with us and, at his request, we sent a telegram to the payee, requesting the check to be sent direct to us for collection. We are advised by the Federal Reserve Bank that the item was received by them from the Y Bank in St. Louis as \$98.28; and, upon taking the matter up with the Y Bank, we are advised that while they received the check for deposit from the payee as \$98.25, they listed it in their letter to the Federal Reserve Bank, through error, as \$98.28, but will not admit that they were responsible for the lead pencil figures, \$98.28, appearing on the check, and have refused to reimburse the drawer for the protest fee and the cost of the telegram sent to the payee by ourselves. The other banks which handled the check also refuse to admit responsibility for the lead pencil figures appearing on it, and it seems that the drawer will have to bear the burden of the expense incident to the protesting of the check and the sending of the telegram to the payee, requesting the return of the check, although he was not responsible in any way for the lead pencil figures appearing on the check for the incorrect amount. The amount involved is not, of course, large, but it appears to us as though an injustice is being done our customer in making him pay the protest fee and the cost of the telegram. Cases similar to this may confront us in the future, and we should like you to advise us whether there is not any way in which the drawer can be relieved of this burden, and if so, upon whom should it properly fall?

In the case presented, a check drawn on your bank for \$98.25 was received from the payee by a St. Louis bank on deposit for that amount. But by error of the St. Louis bank it was listed for collection at \$98.28 and forwarded as a demand for such incorrect amount through the branch of the Federal Reserve Bank of Jacksonville and a national bank of your city which, demanding payment of the incorrect amount and refusing to receive a tender for the correct amount of \$98.25, protested the check.

So far as responsibility for the protest fees is concerned, there was no dishonor of this check which authorized a protest. The check was drawn for \$98.25 and payment of that amount was tendered by the drawee. The protest was, therefore, wrongful and the bank which authorized or directed that such protest be made would be the one responsible for the amount. Neither the drawer nor the drawee is responsible therefore.

I do not understand that the notation in lead pencil of the figures \$98.28, made by one of the collecting banks, was anything more than a marginal memorandum which in no way changed the terms or altered the check. Even were the case one where the figures had been altered from \$98.25 to \$98.28, protest would not have been justified because refusal to pay an altered

check is not a dishonor which justifies protest.

As to the responsibility for expense of the telegram sent by the drawee to the payee requesting return of the check, direct to the drawee for collecting, this was forwarded at the request of the drawer. Strictly speaking, it was a voluntary act, not legally necessary, as his check had not been dishonored and, therefore, from a legal standpoint, the cost should probably be borne by him.

At the same time, it must be borne in mind that where a check is wrongfully protested, it forms the basis for an action for damages by the drawer for injury to his credit. It does not appear that the drawer is making any such demand for damages, but is simply asking that he be reimbursed for the expense of his telegram, in addition to the protest fees. The effect of the telegram was to restore the drawer's credit with the payee. Under the circumstances, it would appear that reimbursement of this telegraphic expense by the bank which caused or directed the wrongful protest to be made, which bank, in any event, is responsible for the protest fee, would be desirable in its interest in view of its possible liability to the drawer upon other grounds.

In this case the initial error was that of the St. Louis bank in instructing the collection of a wrong amount. A subsequent error was that of the local collecting bank in causing the check to be protested when the amount called for by the check was tendered, but the incorrect amount demanded was refused. Whether the one or the other is responsible for the protest fees depends upon whether the local bank caused protest to be made on its own initiative or in pursuance of instructions from the St. Louis bank.

Payment of Stopped Check

A MADE his check to B, which was deposited in bank, transmitted to another bank and by the latter forwarded to the drawee which gave credit and subsequently remitted therefor. Seventeen days later the drawee cancelled the credit and returned the check, advising that payment had been stopped. The collecting bank again forwarded the check to the drawee, which refused to honor it. Opinion:—Payment of the check to a bona fide holder was a finality and not recoverable by the drawee, irrespective of whether it received the notice not to pay before or after such payment, and it remains liable to the collecting bank therefor. The amount is chargeable by the drawee to its customer, unless it paid the check by mistake after receiving the stop payment order.

From West Virginia:—On the 19th day of June, last, we received from one of our correspondents, P bank of M., W. Va., in the regular course of business, check issued by the X Gas Company, drawn on the T bank of S., W. Va., to the order of one R., the amount of the check being five hundred dollars. On the same day the check was received, this bank forwarded same direct to the T bank, who acknowledged receipt of same under date of June 21, advising that same had been placed to our credit, and on June 25, the amount of the check was remitted to this bank.

On July 21 the T bank returned the check to us, charging same to our account, with the notation written across the face of the check "Payment stopped," notwithstanding the fact that the check was stamped, "Paid June 21, 1923." Upon receipt of the check, we returned it to our correspondent, the P bank, who declined to receive

(Concluded on page 317)

Trust Fund Remittances

THOMAS B. PATON, General Counsel

AMONG the opinions of General Counsel, published in the JOURNAL for August, 1923 (page 85), is one, headed as follows:

"A bank remitting funds to the New York banking house of K. N. & K., for the specific purpose of having same applied towards payment of a draft drawn on Switzerland, which draft is not paid because of failure of K. N. & K., before its presentation, is not an ordinary creditor but the money remitted is a trust fund recoverable in full from the receiver."

And in the body of the opinion it is stated:

"The courts quite generally hold that where money is received by a bank for a specific purpose and not as a general deposit subject to check and such money is not applied to the purpose intended but is mingled by the bank with its own money, the bank is not a debtor but its relation is fiduciary and when the bank fails, the money can be recovered by the depositor from the receiver so long as it can be traced into the bank's vaults and a sum equal to it is shown to have continuously remained there from the time the money was received by it until the receiver took possession."

The receiver of Knauth, Nachod & Kuhne and his attorney, without prejudice to the right to oppose any claim that funds remitted under the circumstances referred to became trust funds, have pointed out that the head-note of the published opinion is misleading in that it does not effectively summarize the condition attached in the body of the opinion to the right of recovery in full, namely, the necessity of tracing the money into the bank's vaults and showing that a sum equal to it has continuously remained there from the time of receipt until the time the receiver took possession. We are glad to accept this criticism; the head-note should have had added thereto the condition stated. They furthermore disagree with the body of the opinion, for conceding it might be applicable to the case of a single remittance for a special purpose, they contend it is not applicable to the case of thousands of remittances, even though they be trust funds, where the problem of tracing and identifying is more complicated and difficult, and they ask a further published expression of opinion of the General Counsel dealing with the problem. We are pleased to comply with this request and will first publish in full the communication from the receiver and his attorney.

Attitude of K., N. & K. Receiver

"MIDDLETON S. BORLAND, Receiver
"KNAUTH, NACHOD & KUHNE.

"New York, Sept. 20, 1923.

"Thomas B. Paton, Esq., Attorney for the
American Bankers Association, 110
East Forty-second Street, N. Y. C.

"My dear Mr. Paton:

"On page 85 of the August, 1923, number of the JOURNAL OF THE AMERICAN BANKERS ASSOCIATION we find an opinion of yours headed 'Remittance to Cover Draft,' which opinion has to do with the legal consequences of the remittance of funds to Knauth, Nachod & Kuhne in payment of a draft drawn by the remitter upon a foreign correspondent of Knauth, Nachod & Kuhne. We have received many letters from clients of Knauth, Nachod & Kuhne, banks and individuals, who have

seen your article and who quote to us the head-note thereof to the effect that a remitter in the above circumstances 'is not an ordinary creditor but the money remitted is a trust fund recoverable in full from the receiver.'

"We are writing this letter to you to suggest that the wording of your head-note is, perhaps, unfortunate, not only because, in our opinion, the rule announced is without support in law, but also because it does not effectively summarize your own detailed opinion which follows it. We have been attempting to point out to various correspondents our own opinion of the law on the subject. But we felt that because of the constant reference to your opinion, it might be more efficient to have you, yourself, correct any wrongful impressions received from your opinion, by printing a comment thereon in your next issue if you are, in any measure, convinced by the legal argument which we submit below.

"In the second paragraph of the body of your opinion, after stating the facts as to the mingling of trust moneys in a general bank account, you state that the Courts have held that 'the money can be recovered by the depositor from the Receiver so long as it can be traced into the bank's vaults and a sum equal to it is shown to have continuously remained there from the time the money was received by it until the Receiver took possession' (citing cases). You will notice that in your head-note above referred to, you have made no mention of the necessity for tracing the funds into the Receiver's possession, and your readers, who most likely have not the time to read the entire opinion, but simply glance at the head-note, have jumped to the conclusion that the mere remittance of their funds for a special purpose entitles them to the immediate repayment of the amount sent from the Receiver. They do not seem to be aware of even the single condition which you have attached to their right to recover, to wit: the determination of the existence of a bank balance on the date of the appointment of the Receiver as large as, or in excess of, the remittances made by them. We feel confident that you will agree with us on at least this point, that is, that because of the fact that this condition to recover was not stated in your head-note, a comment of some kind should be made by you in your next number.

"Going further, however, we find ourselves unable to agree with even the body of your opinion quoted above, and for which you cite cases, for the following reasons:

"In a case where one remittance for a special purpose has been mingled with the Receiver's general bank account, the sole problem is correctly stated by you to be whether or not, between the time of the receipt of the funds and the time of the tracing proceeding, the Receiver's bank balance has continuously been in excess of the amount remitted and deposited. But in the present circumstances, where there are thousands of Knauth, Nachod & Kuhne drafts and money orders outstanding, for which remittances had been made prior to the receivership and deposited by Knauth, Nachod & Kuhne in the ordinary course of their business, the problem becomes more complicated. Were the sole question in each case the comparative size of Knauth, Nachod & Kuhne's bank account with each individual remittance, of course, repayment would have to be made by the Receiver in the overwhelming majority of cases. If that rule were followed out, and the Receiver in Bankruptcy began to make repayments to remitters in the order of their demand, it might very well be the fact that although the bank balances were in excess of any single remittance, those balances were not as large as the total amount of remittances made for which drafts were still outstanding and unpaid. The problem thus becomes a very complicated one for the reason that not only must the total amount of all priority and trust claims of every nature be determined before the possibility of the Receiver's repaying remitters can be known, but a very detailed schedule must be drawn showing the bank balances of Knauth, Nachod & Kuhne daily for months, or perhaps years, before the receivership, and a counter-schedule of the amount of trust and priority claims outstanding on each corresponding day.

"In no other way that we know of could it be determined whether or not the bank balances at any specific time had been reduced to an amount less than the total amount of priority or trust claims at that time outstanding. If we are correct in this conclusion, before any repayment can be made by the Receiver in Bankruptcy with safety, an omnibus proceeding would have to be started giving all creditors notice to file claims for priority within a certain time, and barring all persons from filing such claims after the time set. The Receiver would then be supplied with a list of all

possible priority claims of this trust nature, and it could then be determined, with the aid of the alleged bankrupt's books, whether or not such priority claimants were all to be paid in full, all to receive a pro-rata share of the claims because of the reduction of their bank balances below the total amount of their claims, or perhaps some receive their total claims because of the fact that the bank balances, since their individual remittances, had remained in excess of their claims, and some receive no part of their claim (in priority form) because of the fact that, since their individual remittances, the bank balances had been depleted.

"We wish particularly to avoid the effect of a criticism resulting from this letter. We understand fully that sitting down to write a legal opinion on an abstract statement of fact, away from an office in which the problems themselves are arising, cannot have the best results. With the experience of the hundreds of inquiries, and of the constant contact with the Foreign Exchange problems in the administration of this estate, we have ventured to present to you the additional problems which undoubtedly had not been laid before you by your inquirer, and with which there is no reason that you should have been familiar.

"We shall be pleased to receive either an expression of your opinion in the light of facts stated in this letter, or a request for additional data which you might deem necessary to form such an opinion.

"Very truly yours,
(Signed) "MIDDLETON S. BORLAND,
"Receiver.

(Signed) "JAMES N. ROSENBERG,
"Attorney for the Receiver.

"NOTE—The above is entirely without prejudice to the rights of the Receiver to oppose, in the first instance, any claim that funds remitted under the circumstances referred to became trust funds in the hands of Knauth, Nachod & Kuhne."

Reconsideration of Problem

THE opinion of the General Counsel, heretofore published, was prepared shortly after the failure of Knauth, Nachod & Kuhne, in response to the inquiry of a single remitter and at a time when numerous banks were being requested by a committee of creditors to authorize the committee to represent their claims with a view, if possible, of taking the assets out of receivership and agreeing upon a feasible plan of composition or settlement, the success of the plan depending upon the cooperation of the great bulk of the creditors. The intention in publishing this opinion was to indicate to the inquiring bank and other banks which had made remittances to cover foreign drafts that they might have special rights which should not be too hastily forfeited by assuming the status of a general creditor and to present in a general way the rules of law upon which such rights were based. It has been held by the Supreme Court of the United States that the filing of proof of claim as a general creditor does not amount to an election to pursue the claim as a creditor and prevent the recovery of a specific trust fund or property where the filing is coupled with a reservation that the claimant does not waive the right to recover as a trust fund (Thomas v. Taggart, 28 Sup. Ct. Rep. 519). At the same time, where claims as general creditors are placed in the hands of a committee of creditors for representation, without any such reservation, with authority "to enter into such arrangements or take part in or conduct such proceedings as you (the committee) may think necessary or proper" and "to formulate such plans of settlement or

adjustment as you may think best," although coupled with the condition that "this authorization shall not be taken as a consent in advance to any general plan of settlement, composition, extension, or adjustment hereafter to be proposed or adopted," some things might be done by the committee under such authorization as, for example, voting at a creditors' meeting which might bind the claimants to the position of a general creditor and forfeit any right to reclaim a specific fund as trust property. The publication of this opinion, which advised particular banks that had made remittances for specific purposes, of the rules of law which make the bank receiving such remittances a trustee rather than a debtor, so long as the remittances can be traced, although such opinion was of a general nature only and the detailed facts in the particular cases were not, of course, present, was pertinent in view of the situation. Since then, we understand, the secretary of the creditors' committee has advised certain of such claimants that if the estate goes to liquidation there will be an omnibus proceeding in which all of the claimants of trust funds will have to take part, and suggesting that they immediately file proof of claim "without prejudice to the right of the claimant to assert a claim for any specific property or fund in the hands of the receiver." We see no objection to this course.

Let us now reconsider the entire problem both with reference to the law governing the case of a single remitter of money for a specific purpose and the question of recovery in full and the method of procedure where a thousand or more remittances of like character have been made at different times before the failure.

Case of Single Remitter

The argument of the receiver and his attorney virtually concedes, without prejudice, that where a single remittance is made to a banker for a special purpose and the remittance is mingled with the banker's general fund in his own vaults or in bank which passes to a receiver upon its failure, the purpose not being carried out, the remittance is a trust fund the identity of which is not lost by the mere mingling, but it remains identifiable and recoverable in full if the mingled fund from the time of the receipt of the remittance to the time of the receiver taking possession equals or exceeds the amount of the remittance, or if the fund remaining is less than the remittance, then the trust attaches to what remains.

Thus in *Jarmulowsky*, 258 Fed. 231, the bankrupts were private bankers and, on the day before they suspended business, received from the petitioner \$288, for which they gave a receipt stating that the money was to be forwarded to a definite person at a specified place in Europe. The bankrupts never forwarded the money and it ultimately passed to the possession of the trustee. It was held that the private bankers in receiving this money acted in a fiduciary capacity and the person intrusting such money to them may, on tracing the same into the possession of the trustee in bankruptcy, recover it *in solido*.

Let us briefly restate the main rules and

their limitations governing the following and recovery of trust funds.

1. "The old idea that, because money has no earmarks, it cannot be followed when mingled with the funds of a wrongdoer, has long since been exploded. The decisions in England and in this country now allow a trust fund to be followed as long as it can be traced, and its identity ascertained, whether in its original or in some substituted form." *First National Bank v. Armstrong* (C. C.) 36 Fed. 59, 61.

2. But "if the trustee is in bankruptcy or insolvency, it is absolutely necessary to trace the money covered by the trust into some particular property or fund. It is just as necessary to trace it as it is to prove the trust relation." *Weiderman v. Newton Arms Co.* 271 Fed. 304.

3. "It is indispensable * * * that clear proof be made that the trust property or its proceeds went into a specific fund or into a specific identified piece of property which came to the hands of the receiver * * * it is not sufficient to prove that the trust property or its proceeds went into the general assets of the insolvent estate and increased the amount or the value thereof which came to the hands of the receiver." *Empire State Surety Co. v. Carroll Co.*, 194 Fed. 604.

4. "Proof that a trustee mingled trust funds with his own and made payments out of the common fund, is a sufficient identification of the remainder of that fund coming to the hands of the receiver, not exceeding the smallest amount the fund contained subsequent to the commingling, as trust property, because the legal presumption is that he regarded the law and neither paid out nor invested in other property, the trust fund, but kept it sacred." *Empire State Surety Co. v. Carroll Co.*, *supra*.

5. "It is, therefore, a part of the rule applicable to following misappropriated moneys into a bank account that if at any time during currency of the mingled account the drawings out had left a balance less than the trust money the trust money must be regarded as dissipated except as to this balance, the sums subsequently added to the account from other sources not being attributed to the trust fund." *Board of Commissioners v. Strawn*, 157 Fed. 49.

The authorities sufficiently establish where money is remitted to a banker, as in the case of *Knauth, Nachod & Kuhne*, for the specific purpose of covering a draft drawn by the remitter upon a foreign country, such money is received by the banker in a fiduciary relation and where the banker has failed and the proceeds of the remittance can be traced into some particular bank account which has come to the possession of the receiver and it can be proved that continuously from the time of the deposit of such remittance until the time of the receiver's taking possession the amount in such bank account equalled or exceeded the amount of the remittance, the same would be recoverable as a trust fund or if the balance was drawn down below the full amount, whatever is left would be impressed with the trust while the owner would have to prove as a general creditor for the remainder.

Problem of Identifying a Thousand Trusts

The above being true as to a single remittance, how is the situation changed in the case of numerous remittances of like character? The receiver and his attorney indicate that this so complicates the problem as to make extremely difficult the identifying of particular trusts and would necessitate (1) an omnibus proceeding to ascertain the total amount of priority and trust claims; (2) the making of a detailed schedule showing bank balances of the bankrupt daily for months and perhaps for years (3) a counter schedule of the amount of trust and priority claims on each corresponding date.

But it would seem that the difficulty of administering the trust would be no reason for denying justice to particular claimants if the fact could be established that certain of such claimants were entitled to preference as owners of identifiable trust funds. The governing rule where there are a number of claimants of trust money is thus stated in *Empire State Surety Co. v. Carroll Co.*, 194 Fed. 604:

"Where a trustee has mingled in a common fund the moneys of many separate cestui que trust and then made payments out of the common fund, the legal presumption is that the moneys were paid out in the order in which they were paid in and cestui que trustent are equitably entitled to any allowable preference in the inverse order of the times of their respective payments into the fund."

Bolognesi Case

In the recent decision of the United States Circuit Court of Appeals, Second Circuit, *in re A. Bolognesi & Co.*, 254 Fed. 770 the above governing rule was applied and the method to be pursued in ascertaining the rights of respective trust claimants was indicated. While the rights of only a few trust claimants were involved in that case, it would seem that the same rule and method of procedure would be applicable to ascertaining and fixing the respective rights of trust claimants of *Knauth, Nachod & Kuhne* to payment in full. The facts and decision in the Bolognesi case will be given at length, because they seem to us to have an important bearing upon the present problem.

Bolognesi was a banker doing business largely with Italians who, in divers ways wished to transmit funds to Italy. He assigned Feb. 11, 1914, and subsequently became bankrupt. The moneys received by him from customers and depositors were placed in his own bank accounts in sundry chartered banks and trust companies. On the day of the assignment he had on deposit in the Central Trust Company \$11,469.67, composed of his own moneys, as well as those of his customers. Certain persons who had deposited money with Bolognesi for the specific purpose of purchasing drafts and money orders payable in Italy, succeeded in tracing the funds into Bolognesi's account with the Central Trust Company and demanded from the trustee in bankruptcy preferential payment in whole or in part. Thereupon the trustee brought a proceeding wherein all parties making any claim against the Central Trust Company fund were required to appear and make proof before a special master. Numerous claimants appeared whose claims were divisible into two classes (1) those who handed their money to Bolognesi for a spe-

cial purpose with which the bankrupt never complied, i.e., never bought drafts or money orders as directed; (2) Those who did the same thing but who obtained, prior to failure, drafts or the like which however, when presented in Italy were not paid. The special master found as to both classes that Bolognesi occupied a "quasi trust relation" and, as the whole of the amount of claims proven were in excess of the Central Trust Company account, ordered the whole of that fund to be distributed pro rata among all the claimants who had traced their moneys into that fund. An order of the District Court having been made, distributing the fund among the special claimants, the trustee in bankruptcy petitioned for a revision of the order. The Circuit Court of Appeals held as to those claimants who bought and received drafts that they were general creditors without right to participate in the fund at all, as the bargain between them and the banker was completed and they had got what they asked for, although the drafts were not paid but as to claimants who gave money to the bankrupt to be invested in a special character, to buy drafts on Italy and the like, the bankrupt assumed a fiduciary relation and in so far as such claimants traced their funds into the Central Trust Company account, they were *prima facie* entitled to share in the fund because Bolognesi had not fulfilled his duty with respect to them. Speaking of the general rights of the claimants to trace and follow trust funds through a bank account, the court said:

"It is necessary, in order to identify money, to trace it into some specific fund or property * * * a replenishing of a depleted trust account cannot be considered (*per se*) as restoring the trust and it follows that when it appears that moneys impressed with a trust have been mingled with the trustee's general account and a certain amount remains in the account at the end of the period, and the account has not been, in the interval, depleted below the trust amount or final amount, that final amount will be presumed to include the trust money. But where such a mingled fund comes into the hands of a receiver, trustee in bankruptcy, or the like, what is responsible for the claims of the cestui que trustent is the remainder so coming into the hands of the officer of the court, not exceeding the smallest amount the fund contained subsequent to the mingling."

Referring to the situation created by a number of trust claimants the court said:

"The unusual feature of this case is that there are several claimant depositors who put in money at different times, which money has been traced into a fluctuating account. Among such claimants the rule (*prima facie*) is not a *pro rata* equality. The separate cestui que trustent are equitably entitled to any allowable preference in the inverse order of the times of their respective payments into the fund." *Citing Empire, etc., Co. v. Carroll Co.*, 149 Fed. 605.

The court then proceeds to illustrate the operation of the above principles upon the rights of the respective claimants, although the record being imperfect in matters of detail, it states it cannot adjust the rights of the parties but simply indicate the method that should be pursued. It points out that from the time when the claimants began placing the trust deposits with the bankrupt (approximately Jan. 20, 1914) down to the date of the assignment (Feb. 11, 1914) the Central Trust Company fund fluctuated considerably and down to the date of the last deposit with Bolognesi traceable into said fund was never higher than about \$8,000 and fell as low as about \$4,400, while the amounts traceable into the fund and flowing from the claimants held entitled to share, greatly exceeded \$8,000. Continuing, the court says:

"It would appear to be true that on the day when the Central Trust Company account was lowest (January 27th) there was \$4,414.57 in it, and on or before that day moneys of these claimants went into the account to the extent of \$4,457.85. This was the first day when the account was smaller than the trust moneys shown to have been placed there. If the transaction stopped there, the various claimants should be awarded the fund on the theory summarized in the quotation from the *Empire Company* case, supra.

"But, thereafter, at dates and in amounts as to which we cannot be certain, the claimants furnished to Bolognesi other moneys, which he put into the trust company account and never applied to the purposes of his fiduciary undertaking; and this continued until February 10th, when the last of the claimants' moneys went into the fund and the fund itself was \$6,519.04, or \$2,104.47 more than the low tide of January 27th. In the meantime the account on February 3d was no more than \$5,082.61. But we cannot ascertain from this record exactly when the various claimants' moneys went into the fund after January 27th.

"Therefore the account must be stated, and the various priorities awarded, beginning on the first day when the fund was less than the trust money, and then on the next day when the new

deposits in the fund were insufficient to cover the new trust money, and so on."

Rights of Knauth, Nachod & Kuhne Trust Claimants

Bearing in mind that it is necessary not only to prove a trust relation, but also to trace the trust money into a particular property or fund and the further rule that where many trust claimants trace their money into a common fund they are allowed a preference in inverse order of time of their respective payments into the fund, it would appear reasonable to conclude, in the light of the above, that there are a number of banks which made remittances to Knauth, Nachod & Kuhne, for the specific purpose of covering their foreign drafts or for some other specific purpose which was not carried out, that may be able to comply with the foregoing rules and trace such remittances into bank accounts carried by Knauth, Nachod & Kuhne and, under the principles above announced, maintain claims for payment in full. Assuming that the bank balances would be insufficient to pay all such provable trust claims, the rule that the first trust money paid in was the first paid out would operate and it would be a matter of proof as to which remitters would lose their claims for preference because of dissipation of the trust funds and which would still be entitled to recover in full. The purpose of this article, supplemental to the original opinion heretofore published, is simply to indicate that under the law, all moneys remitted to Knauth, Nachod & Kuhne for purposes not carried out, are trust funds and that probably in a great many of such cases the funds can be traced into a particular bank account and be recoverable in full or in part, the balance in the latter case being provable as a general debt. The detailed adjustment of particular cases, of course, rests with the individual claimants and with representatives of the bankrupt estate. If the estate goes to liquidation there will, it is understood, be an *omnibus* proceeding in which all of the claimants of trust funds will have an opportunity to participate.

Opinions of Counsel

(Continued from page 314)

the check from us and asked that we again return it to the T bank for payment, which we did. The paying bank promptly returned it to us, stating that payment had been stopped and they would not honor it.

As the matter now stands, the T bank has charged the amount of the check to our account and the P bank declines to accept the check from us and credit same to our account, stating that their customer, Mr. R., the first endorser on the check, declines to accept the check from them.

The drawer of the check claims that it was given to Mr. R. in payment of a machine which was not delivered as per contract, and for this reason, they declined to honor the check.

With this information before you, will you kindly advise us our rights in the controversy and also who should take up the check, and the bank that is responsible to us for same.

Has the T bank a legal right to charge this check to our account after they had advised payment of same and remitted the amount to us?

Your bank, as holder in due course of a check upon which payment has been received from the drawee, is entitled to retain the amount received thereon, and

the drawee had no right to charge the amount back to your account. Even had payment of this check been stopped before it was received and paid by the drawee, and the giving of credit and remittance therefor been through mistake on its part, such payment would have been a finality, so far as your bank is concerned, and the amount not recoverable from you. In a similar case, *National Bank of New Jersey v. Berrell*, 58 Atl. 189, the Court of Errors and Appeals of New Jersey said:

"As between the holder of a check and the bank upon which it is drawn, the latter is bound to know the state of the depositor's account. Before paying the check, it must take into consideration whether it was drawn against funds, and whether the order for payment evidenced by the check has subsequently been revoked. Therefore, where a bank receives in the ordinary course of business a check drawn upon it, and presented by a bona fide holder, who is without notice of any infirmity therein, and the bank pays the amount of the check to such holder, it finally exercises its option to pay or not to pay, and the transaction is closed, as between the parties to the payment." *Citing numerous cases.*

The fact that, after receiving payment, the check was returned to you by the drawee and you returned it again for payment did not operate as a waiver of your rights under the first payment. The re-forwarding of the check was simply a reiteration of your right to the amount already paid. It follows that the drawee bank is your debtor for the amount of the check. Whether or not the drawee can charge the amount to its customer depends upon whether the stop-payment order was received before or after the check was paid. If received before and the payment was by mistake, the check would not be chargeable; but if the notice not to pay was not given the drawee bank until after it had paid the check, the amount, of course, would be chargeable to the customer because, after payment in due course, the instrument is discharged, and it is too late for the drawer to countermand his order.

Recent Decisions

DIGESTED By THOMAS B. PATON, JR.
Assistant General Counsel

PAYMENT OF FORGED OR RAISED CHECKS.
REQUIREMENT AND AGREEMENT FOR
NOTICE OF DISCREPANCIES WITHIN
TEN DAYS, BANK MUST BE
FREE OF NEGLIGENCE—
CALIFORNIA

PLAINTIFF depositor brings this suit to compel a restoration of his deposit by defendant bank to the extent charged off by a number of checks on which the name and title of agency of the payee was partly erased by the indorsement forged. Plaintiff is a corporation, which for a number of years prior to 1918 had a checking account with defendant. When the account was opened the deposit book contained an "Agreement with depositor," to the effect that after receipt of returned cancelled checks they would be examined, and if within ten days no discrepancy was reported to the bank, the account would be considered correct.

In the latter part of 1918 one of plaintiff's employees whose duties included approving freight bills made out and approved several spurious charges, and caused checks on defendant as drawee bank to be made out to "C. H. Mueller, agent, Pacific Electric Railway Co., Torrance, Cal." The name of the payee was the customary name used in making payment to the railway company by plaintiff, and the checks were duly signed by the secretary of the corporation, and the rubber stamp of the president was affixed. The checks were then returned to the defaulting employee, for the purpose of transmitting to the payee. He took the checks in question, erased "Agent, Pacific Electric Railway Co., Torrance, Cal., leaving "C. H. Mueller" as payee. He then indorsed the checks "C. H. Mueller," and below that "G. C. Davis," his own name. These checks were then cashed at the Hellman Commercial Trust & Savings Bank, which bank was intervened in this suit, and honored by defendant bank, which charged them against plaintiff's account. They were regularly returned to plaintiff and each such return was receipted for in the following words: "Received from the Farmers & Merchants National Bank of Los Angeles, Cal., statement of account and all cancelled vouchers for the months indicated. I agree to examine same carefully, and report all differences or missing vouchers, if any, within ten days. Otherwise the account may be considered correct." Each statement at the top had a statement to the effect that, if differences were not reported within ten days the account would be considered correct.

In January, 1920, defendant discovered the discrepancy, prior to which time defendant had made no effort to verify the genuineness of the indorsement of C. H. Mueller.

In the action, defendant claims it is not liable because a reasonable examination by

A STIPULATION to the effect that a depositor agrees to examine cancelled vouchers and report errors in ten days affords no protection unless the bank itself is free from negligence.

THE deposit of draft with bill of lading attached for collection does not make bank owner of draft where the bank permitted depositor to check against it, but reserved the right to charge back if the collection was not made.

ANY agreement by the cashier that no effort would be made to collect from the indorsers a note given to balance the books to avoid complaint by bank examiner was held ineffective and did not bind the bank unless ratified.

THE A. B. A. statute providing that a deposit by or in the name of a minor shall be held for his exclusive benefit has been held to apply to national banks.

THREE per cent housing companies negotiating 3 per cent loan and home contracts have been declared lotteries in Massachusetts. They have also been declared lotteries in Missouri and Texas.

WHERE a depositor failed to call for his monthly statements and cancelled checks for eighteen months, it was held that, notwithstanding the depositor was guilty of negligence in failing to call for and secure them and discover forgeries, the bank that was also guilty of negligence in paying the forged checks should stand the loss.

plaintiff of the returned vouchers would have disclosed the irregularities, which examination plaintiff was bound to make within ten days. And at all events the bank claims it is not liable on the checks returned more than one year before the commencement of this action, under Section 340, Subsection 3 of the Code of Civil Procedure.

The court held that the negligence of plaintiff in failing to carefully examine the returned vouchers could not be availed of, for it says, "Assuming that the plaintiff was negligent in not making a more thorough examination of the returned checks, although the trial court found that he (the plaintiff) was not negligent, still the * * * bank may not escape liability for the payment of amounts paid on forged checks unless it has itself been free from negligence." And since it was not free from negligence, this plea of negligence on the part of the depositor would not avail defendant.

But the court held the bank not liable on the checks which had been returned to plaintiff more than one year prior to the discovery of the forgery, for Section 340, Subsection 3, of the Code of Civil Procedure (see form recommended by the American Bankers Association, "Program of State Legislation, 1923," page 25), made the statute of limitations one year for such claims, which statute began to run upon rendering the statement notifying the depositor that it had charged the deposit account. *Union Tool Company v. The Farmers & Merchants Nat. Bank of Los Angeles, Cal.*, Supreme Court of California, Sept. 13, 1923, not yet reported.

COLLECTION PAPER DEPOSIT OF DRAFT WITH BILL OF LADING ATTACHED FOR COLLECTION DID NOT MAKE BANK OWNER OF DRAFT AND BILL OF LADING—MISSOURI

PLAINTIFF bank handled defendant's items for collection in distant states, under an agreement whereby plaintiff was relieved of responsibility for the negligence or default of its correspondents. The items were entered to the credit of defendant's account, and he was allowed to draw against them at once, but the bank reserved the right to charge back the amounts which were not actually collected. Under this agreement defendant deposited a draft attached to a bill of lading for a carload of corn, which instruments were forwarded to plaintiff's correspondent at the place where the consignee did business. The corn was refused by the consignee, and the draft dishonored, and the corn was reshipped to another consignee and another draft and bill of lading given plaintiff. The second consignee also refused the corn and refused to pay the draft, which was returned from the distant state to plaintiff unprotested. Following a

further attempt to have the correspondent collect the item, seventeen months later the item was returned to plaintiff uncollected and unprotested.

Plaintiff in this action seeks to hold defendant liable on the nonpayment of the draft on which defendant disclaims liability, since he had been paid for the draft which amounted to a purchase by the bank. Furthermore, plaintiff had told defendant that the bank would hold its correspondents liable, because they had failed to protest, which arrangement defendant claims to have released it. It was further alleged that the plaintiff had not looked after the shipment covered by the bill of lading, which negligence resulted in total loss of the corn, thereby precluding plaintiff's recovery.

The court held for the plaintiff, for the bank was not a purchaser of the item so as to have to stand the loss on its nonpayment, because it had reserved the right to charge back the item if it was uncollected, and the agreement to hold the correspondent liable did not release defendant, for his liability was complete when this promise was made, since by the terms of the agreement between the parties, plaintiff was not liable for the negligence or default of its correspondents.

Nor could defendant avail himself of the plea that the shipment was not looked after, allowing it to become a total loss, for no instructions were given to the bank in regard to any course of action concerning the corn. *Midwest National Bank & Trust Co. v. Parker Corn Co.*, 245 S. W. 217.

ACCOMMODATION INDORSEMENT SUPPORTED BY CONSIDERATION, WHEN CASHIER'S AGREEMENT NOT TO HOLD INDORSERS NOT BINDING AGAINST BANK—PENNSYLVANIA

PLAINTIFF bank accepted certain checks on deposit by now insolvent corporation, and allowed withdrawals. The checks were returned protested, and the corporation was pressed to make the account good. Whereupon defendants, directors of the debtor corporation, indorsed the corporation note made to them, and turned it over to plaintiff bank. The indorsement was made by defendants to stop further demands on the corporation, but with the promise of the president of the plaintiff bank that they would not be called upon to make good on the indorsements; and that the note was merely needed to avoid complaints of the bank examiner, and to balance the books.

The note is here being sued on, the defendants being the indorsers. The agreement of the president of plaintiff not to sue on the indorsements is set forth as a defense, but the court held such a promise here was a wrong act which was not binding on the bank unless its board of directors had knowledge of and ratified it, and without affirmative proof of his authority to so contract, such an agreement was ineffective.

The further fact that there was a pre-existing debt owed by a corporation in which defendants were interested constituted value to them. Nor was there illegality in obtaining the note. The only illegality was in the promise to use it only in deceiving the examining authorities, which is not needed to fix liability on the

defendants in suing on the indorsement. *First National Bank of Greencastle v. Baer*, 120 Atl. 815.

MINOR'S DEPOSITS. AUTHORITY IN WRITING REQUIRED TO AUTHORIZE PAYMENT TO PERSON OTHER THAN DEPOSITOR—MISSOURI

A MINOR deposited in his own name in a national bank certain sums of his own money, and a passbook was issued representing the sum. H. N. Pickett, the stepfather of the minor, drew checks against the deposit at various times, signing the minor's name to the checks, "per H. N. Pickett," which he obtained payment on by presenting the passbook. This was continued until the account was exhausted, when the stepfather surrendered the passbook.

Plaintiff as guardian of the minor brings this action to recover the sum which had been paid to the stepfather. But the bank claims that it paid out the money in accordance with its rules and by-laws, and that the passbook was legally surrendered to it. Plaintiff bases his cause of action on the Missouri Rev. Stat. (1919), Sections 11779 and 11877, which provide that a deposit by or in the name of a minor shall be held for his exclusive benefit. Furthermore, plaintiff claims that, although defendant is a national bank, still this state statute is not one which incapacitates the bank in the discharge of its duties to the Federal Government, but that it merely governs its contracts, and the making and discharging of debts.

The defense is based on the theory that Pickett was acting as the agent of the stepson minor when he withdrew the money upon presentation of the passbook, and that, under the by-laws or rule of the bank, the depositor was bound to give notice of the loss or theft of the passbook—otherwise the bank was warranted in allowing withdrawals upon its presentation.

But the court held for the plaintiff, because the bank was not able to discharge its obligation to the minor by paying the stepfather, unless the stepfather had authority in writing to withdraw the funds. *Gibson v. First Nat. Bank of Jefferson City*, 245 S. W. 1022.

BANK NEGLIGENT IN PAYING FORGED CHECKS LIABLE THEREFOR, NOTWITHSTANDING DEPOSITOR'S FAILURE TO EXAMINE MONTHLY STATEMENTS—TEXAS

SUIT was brought by plaintiff company against a bank to recover funds deposited therein and paid on by it on forged checks. The bank claimed that the plaintiff was negligent in failing to examine the monthly statements which accompanied the checks, thus permitting continuation of the forgeries which would otherwise be detected. It was the bank's custom to make up monthly statements of its accounts with its customers, and place these in charge of a clerk for delivery when called for by the customers. The company knew of this custom, and that they could get the statements by calling for them, but neglected to do this for a period of eighteen months. When they did get the statements the forgeries were immediately discovered.

The jury in the lower court ("and there is no attack on their findings") found that the bank was negligent in paying the forged checks and could have discovered the forgeries before payment by "exercising ordinary care and skill," and that the plaintiff was "guilty of negligence in failing to call for and secure the monthly statements and examine the same and discover the forgeries among the cancelled checks."

The court which reviewed the decision cited the case of *Weinstein v. Nat. Bk.*, 69 Tex. 38, 6 S. W. 171, which held that:

"It is the duty of the depositor to examine statements of accounts with vouchers furnished him by the bank 'to the end that he may verify it, if it be correct, or detect the errors if it be found erroneous,' and that, should the depositor 'negligently fail to make the examination and consequent discovery where he could have discovered it,' he is estopped from denying the correctness of the account, where to permit him to do so would entail loss on the bank that it would not otherwise have sustained."

The court also cited with approval the decision of *Bank v. Morgan*, 117 U. S. 96, in which the Supreme Court of the U. S. said:

"Of course, if the defendant's officers, before paying the altered checks, could by proper care and skill have detected the forgeries, then it cannot receive a credit for the amount of those checks, even if the depositor omitted all examination of his account."

Upon the authority of the foregoing and other cases the court held that the bank was negligent in paying the forged checks and was liable, notwithstanding the depositor's failure to examine the monthly statements. *Coleman Drilling Co. v. First Nat. Bk.*, 252 S. W. 215.

LOTTERIES. SALE OF CONTRACTS BY 3 PER CENT HOUSING COMPANY HELD ILLEGAL —MASSACHUSETTS

A PROCEEDING was commenced in equity to restrain the Co-operative League of America organized in Pennsylvania from continuing business in Massachusetts. It was brought under a statute to the effect that no person shall issue or sell any bonds or obligations redeemable in numerical or any arbitrary order. The court found that the business of the defendant consisted in so-called loan and home purchasing contracts, providing for payment of monthly installments and creation of a trust fund from which loans are to be made from contract holders in order of dates of their contract for improvement of real estate payment of encumbrances, etc., or for sale of loan privileges for their benefit.

The injunction was granted, the court holding that the statute was broad enough to include associations and organizations such as the defendant. *Long v. Co-operative League of America*, 140 N. E. 811. See also *State ex rel. Home Planners Depository v. Hughes*, 253 S. W. (Mo.) 229.

Regional Conference of Trust Companies

A regional conference for trust companies in the States of Washington, Idaho, Montana, Wyoming, Colorado, Oregon, Nevada, Utah, New Mexico, Arizona and California will be held at the San Francisco Commercial Club, San Francisco, on November 22 and 23. It will be under the auspices of the Committee on Mid-Winter Conferences of the Trust Company Division of the American Bankers Association.

Branch Bank Regulations

THE regulations formulated by Henry M. Dawes, Comptroller of the Currency, relating to branches of national banks are as follows:

"1. Under the authority of the National Bank Act, as construed by the Attorney General in opinions rendered on May 11, 1911, and Oct. 3, 1923, respectively, the Comptroller of the Currency will permit national banks, under the conditions hereinafter set forth, to establish one or more additional offices.

"2. A national bank will be permitted to establish such an office only in a city in which other banks are engaged in, and under existing law or regulation are permitted to engage *de novo* in, banking practices which make it necessary for the national bank in question to operate such an office in order effectively to conduct its banking business.

"3. National banks will be permitted to establish such offices only within the limits of the city, town or village named in its organization certificate as the place where its operations of discount and deposit are to be carried on.

"4. A national bank desiring to establish and to operate one or more additional offices shall make application therefor to the Comptroller of the Currency on a form prescribed or approved by him in which shall be set forth, among other things, the following:

- "(a) The number of offices and the proposed street location or vicinity of each.
- "(b) A statement of the condition of the applying bank as of the date of application.
- "(c) The number of banks with branches or additional offices in operation in said city.
- "(d) A statement of the facts and conditions which, in the opinion of the board of directors make it necessary for the applying bank to establish the proposed office or offices.

"5. Each application for one or more additional offices shall be accompanied by a certified copy of a resolution of the board of directors, showing that such application has been submitted to and approved by the board.

"6. After the Comptroller has approved the application of a national bank for one or more additional offices, and before such office or offices are opened for business, a statement shall be transmitted to the Comptroller showing the street location, the purchase price paid, the annual rental cost, and the cost of equipment for each such office.

"7. Operations of additional offices of national banks established under these regulations shall be confined to the receipt of deposits and the payment of checks and other such routine or administrative functions.

"8. No investment in bonds or other securities for the account of the bank shall be made at any such additional office.

"9. No loan or discount shall be made to any customer of the bank through any

such additional office that has not been authorized *at the banking house* by a resolution of the board of directors, or by an appropriate committee of such board, or by an officer or officers acting under authority from such board, and no general authority issued by the board of directors shall vest it in any officer or employee at such additional office any discretionary authority with reference to making such loans or discounts.

"10. A statement of the business conducted at such offices shall be transmitted to the banking house as of the close of business daily, shall be incorporated on the books at the banking house at regular intervals, and shall enter into all statements of the condition of the bank."

Comptroller's Statement

IN a letter accompanying the publication of the regulations, the Comptroller says: "The Attorney General in an opinion dated Oct. 3, 1923, has made the following ruling:

"A national banking association may establish in the city or place designated in its certificate of organization, an office or offices for the transaction of business of a routine character which does not require the exercise of discretion and which may be legally transacted by the bank itself. It may not, however, establish a branch bank doing a general banking business such as is usually done by national banks. The establishment of such a branch would be illegal and subject the offending bank to the forfeiture of its charter."

"In this connection the Attorney General further held that the manner of the exercise of the incidental powers by virtue of which, under the law, national banks are permitted to establish such offices, must be exercised 'subject to the supervision of the Comptroller of the Currency.'

"In the opinion rendered by Attorney General Wickersham May 11, 1911, it was held that a national bank is not authorized under the National Bank Act to establish a branch bank for the purpose of engaging in a general banking business; that the establishment of such a branch would be illegal and would subject the offending bank to the forfeiture of its charter.

"This view is confirmed and restated in the opinion of Oct. 3, in which Attorney General Daugherty elaborates the earlier opinion by making a distinction between the discretionary powers of a national bank (that is to say, the corporate powers of the bank as exercised by its board of directors) and the purely routine or administrative functions which may be performed by the bank employees. Upon this theory, while denying to a national bank the power to maintain a branch bank in which the discretionary authority of the board of directors could be exercised, he held that a national bank might establish an office or offices within the city or town in which the bank is located, at a distance from its banking house, and at or through such office or offices the bank might perform routine or administrative functions, leaving the discretionary authority of the bank to be exercised solely at the banking house.

"The right or power to establish such ad-

ditional offices in the city or town in which the bank is located, not being expressly authorized by statute, but being an implied incidental power, and the functions to be performed through such offices, in the opinion of the Attorney General, being limited to routine or administrative functions, it is necessary for the Comptroller of the Currency in the exercise of his general supervisory powers to prescribe regulations in which are set forth the conditions under which such offices may be established and operated.

"While the opinion of the Attorney General permits the Comptroller of the Currency to afford a measure of relief to national banks in certain cities where local banking practices have put the national banks to a disadvantage, he could not properly permit such national banks to establish additional offices without restriction, or in localities where the other banks are prohibited from enjoying similar privileges. The establishment of such offices being an exercise of an implied power, must be exercised only where an actual necessity exists in each instance and only after approval by the Comptroller of the Currency.

"Where a bank desires through such office to exercise particular administrative functions not dealt with in existing regulations, an application should be made to the Comptroller of the Currency for a special ruling.

"With reference to applications to the Comptroller by national banks for permission to establish such an office or offices, the Comptroller will not take into consideration as a reason for his approval the fact that a bank has prior to making such application invested funds in property for the purpose of securing a site or sites therefor.

Conversions

"THE above mentioned opinion of the Attorney General and the regulations of the Comptroller of the Currency, to which reference is herein made, have no application to branches of national banks acquired under the provisions of the Act of March 3, 1865, by virtue of which a State bank, having branches may convert into a national bank and elect to retain its branches; nor to branches of national banks acquired as a result of the consolidation of national banks under the provisions of the Act of Nov. 7, 1918, under which the branches of one or more of such consolidating banks, having been acquired under the Act of 1865 above referred to, may be retained by the national bank resulting from such consolidation."

The Policy of Caution

"While the policy of caution now being generally followed undoubtedly is advisable," says the review of the National City Bank of New York, "there is nothing to indicate any sudden depression of values or falling off of consumption demands."



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Three Dangerous Trends

Taxation Has Doubled in a Decade. Amount of Property Exempt from Taxes Increases. Farmers Alleged to Be Paying More Than Their Share. Last Year's Total Tax Bill Was \$64.63 per capita. In 1913 It Was \$17.07 per capita.

THREE dangerous national trends are revealed in the results of a study by the National Industrial Conference Board of the cost of government to the people—the tax burden increases; the property exempt from taxation grows in volume and agriculture appears to be paying more than other classes.

The constantly-rising amount of property which has been rendered by various means exempt from taxation is given as \$54,000,000,000 in 1922. "This stupendous sum," says the report, "represents slightly less than one-fifth of our national wealth, and is equal roughly to one-third of all property assessed under the general property tax which forms the bulwark of State and local government finance."

Another aspect of the report is the statement that the board finds the American farmer paying more than his share of the nation's tax bill, as related to his income. The figures, says the report, "demonstrate very clearly that as related to income the farmer's burden of taxation has been before the war and still is heavier than that resting on the remaining economic classes."

Researches were conducted by the economists on the board's staff in every State and a mass of authorities are cited to support the figures.

Summarizing the growth of the country's tax bill, the report shows that the nation paid last year in taxes \$7,061,000,000, compared with \$8,363,000,000 in 1921, \$2,194,000,000 in 1913 and \$1,382,000,000 in 1903. In 1922 the taxes collected by the Federal Government showed a decline of \$1,526,000,000 as compared with 1921. This is ascribed to the reduction of income taxes due to the low ebb of business in 1921.

On the other hand, taxes of State and local governments continued to mount. State taxes increased from \$307,000,000 in 1913 to \$846,000,000 in 1922. Likewise local taxes rose from \$1,219,000,000 in 1913 to \$3,301,000,000 last year. This rising ratio of taxation to the national income is also shown by the statement that it was 6.4 per cent in 1913, 12.1 per cent in 1919, 16.7 per cent in 1921 and 12.1 per cent in 1922.

The tax burden, figured in terms of each

person's income, is also cited to bear out the board's conclusions. The total tax bill last year was \$64.63 per capita, as compared with \$17.07 per capita in 1913. This represents, as gauged by income, the result of six and one-quarter weeks' work in 1922 for taxes as compared with three and a third weeks' work before the war.

"In a nutshell," says the board, "all taxes stated in dollars were in 1922 about three and one-half times as high as they were in 1913 and twice as burdensome."

The report includes among the factors

count was taken of property owned by Federal, State and local governments, religious, charitable, educational and similar institutions, various scientific and temperance societies, libraries, building and loan associations, cemeteries, observatories, property of clergymen, widows, orphans, etc. Various States differ in their degrees and classes of exemption, but the board made its calculations on the basis of these differences.

The assessed value of all property subject to taxation under the general property tax in 1921 was \$128,67,000,000, and the real value \$178,306,000,000. This, the board says, does not represent the total wealth, inasmuch as personal property largely escapes taxation. The report cites the value of all exempt real property in 1921 as \$18,398,000,000, compared with twelve and a third billions in 1912, an increase of 49.4 per cent in the nine-year period.

"Students of fiscal science," says the report, "are fully familiar with the fact that the general property tax has suffered a complete breakdown. New York, the richest commonwealth in the union, may be studied with profit. The ratio of the value of personal property to total property has steadily declined from 25.5 per cent in 1866 to 1.6 per cent in 1921.

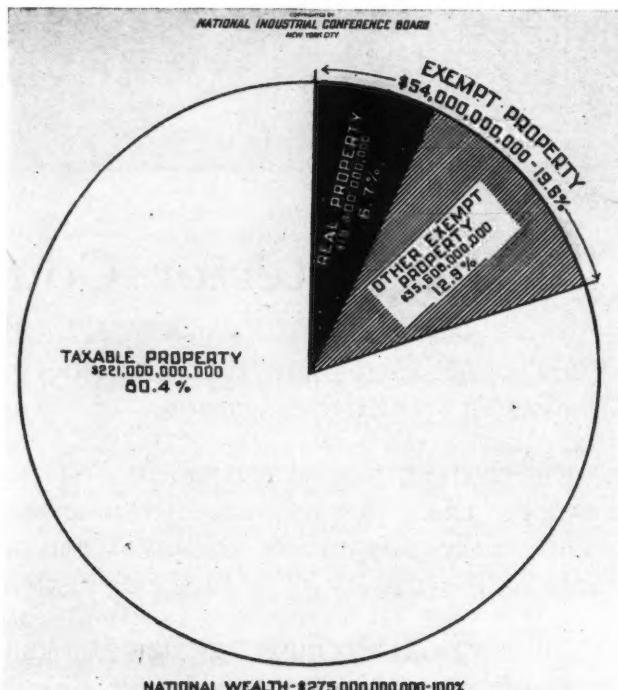
"If to the exempt real property," says the report, "is added the vast amount of personal property represented in the security holdings of foundations and endowments and in government bonds, viz., \$1,000,000,000 in foundations, \$1,500,000,000 in college, hospital, charitable and church endowments, \$10,000,000,000 in State and local Government securities, and \$23,000,

000,000 in Federal Government securities, the stupendous sum of \$54,000,000,000 is arrived at, the principal and income of which is beyond the reach of the tax-collector of State and local governments.

"The ratio of exempt real property to total real property was, in 1921, 12.8 per cent, compared with 11.1 per cent in 1912, and the growth shows no signs of abatement."

The figures of the board show that the farmer's share of the tax bill is greater

(Concluded on page 339)



National Wealth and Property Exempt from Taxation in the United States in 1921

entering into the country's rising tax bill the growing army of jobholders. It finds added cause for consideration in the growth of property of various kinds which is exempt from taxation.

"How much of the taxable capacity of the country," the report asks, "by virtue of legal exemption bears no burden at all, or less than its share?" In getting an answer to this question it was necessary to make a special survey in all the States and the District of Columbia. In reaching the total of exempted property as \$54,000,000,000, ac-

Survey of Western Europe's Problems

THE Commerce and Marine Commission of the American Bankers Association, of which Commissioner Fred I. Kent, vice-president of the Bankers Trust Co. of New York is chairman, has published in booklet form the results of a survey of the economic problems of Western Europe.

The survey, which was prepared for the Commission by Alan G. Goldsmith, chief of the Western European Division of the Department of Commerce, takes up the Italian situation, the outlook for Austria, the situation in Czechoslovakia, unemployment in England, the reparations situation, the economic position of France, the situation in Belgium, Germany's economic collapse, the liquidation period in Scandinavia and developments in other countries.

"The end of the first half of 1923 finds Western Europe struggling back to normal business conditions and with considerable progress made since the armistice," the survey says. "Industry and commerce have advanced, and the food situation has materially improved in most quarters. This progress has been particularly noticeable in those countries and in such cases where economic development has been permitted to progress without interference. Wherever economic, financial or commercial problems have been handled as matters of national or international politics, the normal recovery in many cases has been seriously impaired. "Public finance and fiscal reorganization in certain instances has been lagging behind the industrial and commercial development, because these problems have been considered not only from the standpoint of economic rehabilitation, but also from a political point of view. There have, however, been some instances of pronounced national rehabilitation including the question of national fiscal affairs. In Italy considerable development has been shown ever since the armistice. The Czechoslovak program has been progressing in an extremely satisfactory manner, and the efforts made by European countries to put Austria on her feet have shown quite encouraging results.

"The reparation situation remains as the crucial problem in European economic rehabilitation yet to be solved. Until this matter is adjusted on a business-like basis, no sure reorganization of commerce and industry can take place in Europe.

"In order to progress along the lines of financial improvement and currency stabilization, it is absolutely necessary in the first place that a nation desiring to rehabilitate itself must balance its budget. When national expenditures exceed revenue only two options are left for the state: Either paper currency must be issued to take care of the shortage, or loans must be floated on the basis of which obligations can be paid. Both of these methods cause inflation if the shortage is noticeably large. The former method, as in Germany, invariably brings about the immediate depreciation of its currency and resultant evils. The latter procedure as in France does not immediately react on the exchange, because the popula-



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tion absorbs the bonds which are floated and does not throw them on the public market. This debt is, however, an obligation of the state which increases at compound interest, and if this method is carried on will bring with it eventual inflation.

"Including the invisible and intangible items, such as receipts from shipping, returns from investments, tourist expenditures and remittances from emigrants abroad, the trade of the country must also show a balance. No gold loan or any form of loan advanced to a country whose total net imports exceed its exports, including the invisible items, will be of any financial assistance under unrestricted economic conditions. The gold will immediately flow out of the country in order to equalize shortages in the international balance, and

the country will be faced with a new inflation menace.

"In considering the present-day fiscal affairs of European countries, these two major factors have been given first consideration."

Immigrant Remittances

"International financiers have taken scant notice of the fact that the American balance of trade in 1921, amounting to \$636,000,000, was offset largely by the immigrant remittances alone. . . . But anyone familiar with the conditions cannot question that hundreds of millions of dollars leave America yearly in the form of immigrant remittances. For the post war period my estimate is from \$400,000,000 to \$500,000,000 per annum.—ELIOT G. MEARS.



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The Condition of Business

Significance of Recent Events. Not Purely a Seasonal Recession. Research Organization's View. Influences of the "Sick Loan Committees," in the Large Banks. What the Inventories Indicate. Resistance of the Consumer to High Prices.

NO extraordinary events mark the business situation during the past month, and yet it was not a month which could be described by the familiar clause "the month saw a continuation of the tendencies of preceding months."

The coal situation is rapidly settling back to normal, with a production of 2,000,000 tons of anthracite a week and a total production this year to date of 71,000,000 tons, the largest since 1918. Securing an adequate supply of coal for all users has now become a matter of distribution.

The situation in the silk industry, which was so seriously disturbed by the Japanese earthquake, is also nearer to normal. Silk plants are far from operating at their usual place, but then neither are cotton mills, and there has been a gradual reduction in silk prices. Kansai No. 1 is quoted at \$8.65 a pound, compared with \$10.50 a few weeks ago. There are no other marked effects of the Japanese earthquake in our own present business situation, except perhaps slightly increased orders for structural steel.

The business man has, therefore, been able to dismiss from his mind consideration of these unusual events, which were so prominent a month ago, and centers his attention on the probable movement of business during coming months. In connection with this problem the events of the past month have been of exceptional significance. It was possible a few weeks ago for observers to say that the reduction in business activity which occurred during the summer was largely seasonal in nature, and various prophets predicted that activity would be resumed in the fall of the year. The events of September and October make it clear that we are dealing not with a purely seasonal recession, but with a genuine pause in industrial activity.

Extent of Recession

LAST spring production in many basic industries made new high records. Building reached exceptional amounts, and in other directions where definite figures are available it has become clear that the spring was a period of most unusual business activity, exceeding in most lines the record figures of early 1920. The figures are equally clear that this pace was too hard to maintain for any extended period. While the recession in industrial production has been most marked and frequently commented upon, there have been accompanying changes in other phases of business activity, when allowance has been made for the usual seasonal variations. In order to illustrate these changes the following table is quoted from the *Monthly Review* of the

Federal Reserve Bank of New York, showing various indexes of business activity as percentages of a computed normal activity. The figures have been adjusted to eliminate the influence of seasonal changes, natural growth from year to year, and price changes. Thus the figures as they stand show what business is, compared with what it ought to be. What it ought to be is taken as 100 per cent:

	1922	1923	
	Sept.	April	May
Primary Distribution			
Car loadings, mdse. and misc.	98	114	108
Car loadings, other	93	125	119
Exports	79	82	83
Imports	111	122	130
Distribution to Consumer			
Chain store sales	102	96	99
Mail order sales	80	100	110
New life insurance written	107	103	105
Magazine advertising	85	95	91
General Business Activity			
Bank debits, outside N. Y. City	100	111	112
Bank debits, New York City	110	104	105
Electric power produced	102	115	112
Building permits granted	130	144	122
(p) Preliminary (A) August			127(p)

This table shows that a year ago in September these indices of general business were on the average running slightly below normal, and in the spring of this year they were running on the average of about 10 per

cent above normal, whereas in the past month they were just about at normal. They indicate, therefore, a heavy volume of business, although not as heavy as last spring. They indicate a condition of prosperity, but of somewhat less vigorous prosperity than in preceding months this year.

Harvard Economic Conference

FIVE years ago the authorities of Harvard University undertook the establishment of a research organization which would study in scientific fashion current economic events, and attempt to predict for the benefit of business men what the course of business was likely to be in coming months. The research committee publishes a current report and once a year holds a meeting which is attended by a large number of business executives and statisticians. This year's meeting was held during October and was the occasion of an exchange of views between the representatives of the research committee and business executives.

The Harvard Committee made a statement to the effect that the business and financial developments this fall were so peculiar in nature that no positive prediction as to the future could as yet be ventured, but they gave it as their opinion that the condition of business would be likely to

Official Notice

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, OF THE JOURNAL OF THE AMERICAN BANKERS ASSOCIATION, published monthly at New York, N. Y., for October 1, 1923.

State of New York, county of New York, ss. Before me, a Notary Public in and for the State and county aforesaid, personally appeared James E. Clark, who, having been duly sworn according to law, deposed and says that he is the editor and business manager of the JOURNAL OF THE AMERICAN BANKERS ASSOCIATION, and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 443, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, F. N. Shepherd, 110 East 42nd Street, New York, N. Y.; editor, James E. Clark, 110 East 42nd Street, New York, N. Y.; managing editor, none; business manager, James E. Clark, 110 East 42nd Street, New York, N. Y.

2. That the owner is (If the publication is owned by an individual his name and address, or if owned by more than one individual the name and address of each, should be given below; if the publication is owned by a corporation the name of the corporation and the names and addresses of the stockholders owning or holding one per cent or more of the total amount of stock; if there are none, so state): The American Bankers Association, 110 East 42nd Street, New York, N. Y. (A voluntary, unincorporated association of 22,565 banks; Walter W. Head, Omaha National Bank, Omaha, Nebraska, President and F. N. Shepherd, 110 East 42nd Street, New York, N. Y., executive manager.)

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: None.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholders or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds or other securities than as so stated by him.

5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the six months preceding the date shown above is. (This information is required from daily publications only.)

JAMES E. CLARK,
(Signature of editor and business manager.)

Sworn to and subscribed before me this 1st day of October, 1923.
RICHARD W. HILL, Notary Public, Westchester County, Bronx County Clerk's No. 9; Bronx County Register's No. 184; New York County Clerk's No. 322; New York County Register's No. 4278.

(Appointment expires March 30, 1924.) [SEAL]

BEANS

MICHIGAN has this year grown about 6,506,000 bushels of white beans. This will be fully 65 per cent of the white beans grown in the United States.

As business men from coast to coast eat their favorite noon-day soup, and New Englanders their week end dinner of beans, they seldom think of Michigan as the "Bean State."

The bean crop is but another of many business reasons why your bank should have the best connection obtainable through which it may serve your customers efficiently throughout the Great Lakes Region.

FIRST NATIONAL BANK
DETROIT
MICHIGAN

The First National Bank, the Central Savings Bank and the First National Company of Detroit, are under one ownership.

improve in the coming six months, and the recession in activity which has occurred since last spring would turn out to be in the nature of a readjustment rather than a depression. The Harvard statement was based on three major factors:

1. In August and September there was a marked rise in commodity prices, as indicated by the fact that the Department of Labor index was nearly 3 per cent higher in September than in August. A price change of this sort is usually an indication of favorable business conditions, as it tends to show an excess of demand over supply. In this particular case the advance was largely the result of changes in the prices of farm products, which have continued in October. The price of cotton, for example,

has reached a new high quotation for the year of 31.75 cents a pound in the New York market. Corn has sold for \$1 and has been nearly 60 per cent higher than in January. Cattle, oats, wheat and hogs are also selling at higher prices. These price advances were more than sufficient in September to offset a decline in the prices of many commodities used largely in industry.

2. Retail trade in the view of the Harvard Committee has continued to be good, indicating a heavy consumption of goods by the ultimate consumer. The reports of the Federal Reserve Banks for the sales of department stores have been running in the neighborhood of 10 per cent larger than a year ago.

3. Money rates have continued to be easy

right through the summer and fall. It has almost always been true in the past that a period of business recession has been marked by high money rates, and these high money rates have been one of the most important factors in producing the recession. Business has been curtailed because it has not been able to secure the funds required at a reasonable rate. The Harvard Committee has felt that in one way or another any genuinely serious situation in business would find its reflection in stringent money conditions. After the 15th of October evidence appeared of still easier money rates. Commercial paper in New York sold generally for 5 to 5 1/4, as compared with 5 1/4 to 5 1/2 previously. This would seem to indicate an unusually early culmination of the seasonal credit demands of autumn and would lend support to the Harvard assertion that money rates were unusually easy considering the direction in the movement of business. Accompanying easier money rates, bond prices have stiffened somewhat, particularly prices of Liberty bonds.

An Opposite View

THE discussion by business men at the Harvard Conference brought to light an opposite view to that put forward tentatively by the Harvard Committee. These business men pointed out that the rise in prices was almost wholly due to a lower production of certain agricultural products and that commodities connected with industry and many phases of business continue to decline. They pointed out also that retail trade in the rural districts affecting some 35 per cent of the population is far from good. The situation as far money rates are concerned was much more difficult to explain. On this point an interesting theory has been put forward, however, to the effect that in the current situation the "sick loan" committee has taken the place of high money rates in placing pressure on business. Since 1920 practically every large bank has appointed a committee, or at least an officer, whose duty it should be to nurse the "sick loans" or the "sick babies," as they are often called. This committee has in and out of season sought to reduce the liability of the banks for loans contracted in 1920, and it may safely be asserted that the constant reports of the "sick loan" committee to the officers and directors of banks has resulted in an unusual type of pressure against loan expansion, which at the present time may be exercising a considerable influence in preventing business expansion. Bankers report particularly that constant caution has been necessary against loading up with real estate loans.

Inventories on Hand

AN exceedingly interesting test of the soundness of any business situation is the amount of stocks of goods which are held and in that respect also the evidence in the current situation is mixed. Current reports indicate that there are unusually large stocks of pig iron, crude oil, rubber tires, paper and probably of certain other commodities. On the other hand, a good many industries are running much closer on inventories than they did in 1920, and in fact as close as they were a year ago. As cases

in point may be mentioned automobile manufacturers, manufacturers of electrical goods and city department stores.

The Famous Players-Lasky Corporation has just announced the stopping of further output of motion picture films, while the present large stocks of films are being distributed and pending a readjustment of costs in that industry. The vice-president of Universal Pictures Corporation states the situation vigorously:

"Adolph Zukor, President of the Famous Players-Lasky, was right. Production conditions are and have been outrageously abnormal. It would be a great thing if all studios could close their doors until the people who have been forcing costs skyward have a chance to wake up. The only reason why Universal has not closed its studios is because it would leave us with so many unfinished negatives on hand that we would risk a loss of over a million dollars. When these negatives are finished we intend to shut off production as close to the complete stopping point as our releasing contracts will permit."

A Price Era

ONE characteristic of the present situation from whatever point of view it is approached is the prominence in any discussion of the relation between cost and price. Industrial costs are high, but there is vigorous resistance on the part of the consumer to high prices for the finished product. This situation may be illustrated by quotations from a number of members of the National Wholesale Dry Goods Association, whose opinions have been published in the Market Service Letter of that organization:

"Manufacturers rather hesitate in advancing prices on both immediate and spring orders, realizing that every advance means curtailment in the purchases on the part of the retailer and the consumer. In a good many cases where goods have been sold by the manufacturer at about cost, the advance in cotton and cotton yarns has made it absolutely necessary to advance the price of the merchandise."

"There is too great a difference between the cost of merchandise and what we can get for the same to lend attraction even to the small orders obtainable."

"We cannot see any reason for not expecting to have a good normal spring business, but state without hesitation that this is a time to 'watch your step' and that prices cannot be advanced on any line of merchandise without affecting sales adversely very much."

The department stores testify to the same general experience. It is always possible to sell very large quantities of goods by advertising a special sale and offering bargain prices.

Consumer Inventories

ONE element in the situation which may be of importance is the fact that today as never before individual purchasers have mortgaged their future income by buying houses, automobiles, furniture, etc., on the installment plan. Such purchases clearly constitute at the present time a far from negligible percentage of the total national income. The building and automobile boom of the early spring have resulted in part from this advance buying. It is a growing tendency in American life which needs careful appraisal. It probably leads to a degree of rigorous thrift that has never been practised before by large numbers of people. On the other hand, it places many people in a situation where any financial reverse would be very serious. The complete implications probably will not be understood until we have had longer experience with this type of buying.

National Bank of Commerce in New York

Established 1839

STATEMENT OF CONDITION, SEPTEMBER 14, 1923

RESOURCES

Loans and Discounts \$291,479,032.51
Overdrafts, secured and unsecured ... 5.29
United States Securities 24,053,721.86
Other Bonds and Securities 5,735,087.39
Stock of Federal Reserve Bank 1,500,000.00
Banking House 4,000,000.00
Cash in Vault and due from Federal Reserve Bank 43,307,009.68
Due from Banks and Bankers 5,832,822.43
Exchanges for Clearing House 46,559,849.81
Checks and other Cash Items 2,341,380.26
Interest Accrued ... 1,261,908.37
Customers' Liability under Acceptances. 16,355,921.28

\$442,426,738.88

LIABILITIES

Capital Paid up \$25,000,000.00
Surplus 25,000,000.00
Undivided Profits 14,449,281.90
Dividends unpaid ... 10,103.50
Deposits 329,904,945.64
Bills Payable with Federal Reserve Bank 20,000,000.00
Reserved for Interest, Taxes and other Purposes 5,584,232.75
Unearned Discount. 1,750,785.10
Acceptances executed for Customers 16,879,048.33
Acceptances sold with our Endorsement .. 3,848,341.66

\$442,426,738.88

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shows only a moderate increase from last year, amounting to about 5 per cent. It is clear that in any historical review the present will be recognized as a period of prosperity in this country.

The proposal for an international conference on German reparations is the first bright spot in the discussion of foreign conditions which has been in evidence for many months. Meanwhile the old conditions continue. German currency continues to depreciate. The flow of gold to this country is as large as a year ago. Sterling exchange has reached a new low point for the year, as we come into the midst of the heaviest of seasonal requirements for American exchange for the shipment of foodstuffs abroad. At the basis of any care for these ills lies some settlement of the reparations problem.

General Well Being

THE business situation of the day is, therefore, a mixture of new and old elements pointing from one point of view to a further recession in business, and from another point of view to a continued good volume of trade. Meanwhile the recognition of dangers in the current situation is a wholesome sign. The checking in the extension of bank loans in particular is an element of soundness. If there is a depression, it should not last long nor bring with it very serious results.

While we wait the outcome of present tendencies, it is clear that the general well being of the population is on a high level. Recent increases in agricultural prices improve the purchasing power of the farmer. Wages are high, while the cost of living

No. 4 of a series of talks on the
means of testing an appraisal

Appraised — but how?

Value is not an obvious quality. Its determination, therefore, may be either a matter of conjecture or a marshalling of the evidence which justifies and proves the stated value.

Appraisals may be judged, therefore, by the extent to which conjecture is subordinated to the establishment of facts. Provability is of fundamental importance.

The American Appraisal Company's appraisals are provable because they are based on careful detailed investigation of the property by trained appraisers, the prediction of value on historically verified facts, the recognition throughout the entire organization that an appraisal is in reality the counting of money—the dollars represented by property.

The provability of American Appraisals has been demonstrated in hundreds of instances before courts, governmental agencies, insurance adjusters, boards of arbitration, bankers and others.

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INVESTIGATIONS • VALUATIONS • REPORTS

INDUSTRIALS • PUBLIC UTILITIES • NATURAL RESOURCES

C 1923, The A. A. Co.

“Has Lifted High”

(From *Manufacturers Record*)

If the members of the American Bankers Association will carry out to the fullest extent possible their dedication to the high aim set forth in their declaration of principles at Atlantic City, they will accomplish more for the betterment of the world than they can ever accomplish through their financial power. The closing paragraphs of this declaration are as follows:

In the midst of the many puzzling economic problems which the world faces today, largely resulting from the political differences and ambitions of rival nations, the conclusion is inevitably forced on the impartial observer that the primary need of the world is moral and spiritual regeneration as the essential basis for economic recovery.

Until the nations of the world are willing to liquidate their hates, they can make slight progress toward liquidating their debts.

Until the dominating forces of greed and selfishness are mitigated by a higher regard for the rights of others, until a larger degree of international good-will supplants racial animosities, until a higher regard for moral obligations and human welfare characterize the practices of men, the many economic problems incident to the operation of these evil forces will await solution.

While the purposes which dominate the councils of the nations are political, rather than economic, are selfish rather than fraternal, are following the forces of expediency and opportunism rather than the ends of justice and righteousness, there can be little hope for improvement in the existing order.

Until ideals of human welfare, of a just distribution of earth's bounties and a righteous observance of the common good are more firmly implanted in the minds of men, we must expect the constant conflict of interest and its expression in political, social and economic disorder.

To the ends of a better understanding, not only of the purposes of business, but of life, that a better order may be established among men,

the bankers of America dedicate themselves in united effort to attain and maintain those ideals of civilization upon which alone human society can soundly rest.

Brave, strong, true words. They challenge the business man's attention, for they are addressed to business men.

The world does indeed need moral and spiritual regeneration. Without it there will be no permanent peace in the world. The hatreds of Europe running through thousands of years inbred in races cannot be wiped out in one generation or in many generations unless there be a complete spiritual regeneration of Europe and of the world.

Nations are as the individuals in the nation—good or evil. The problems which the bankers had expressly in mind regarding the conditions in Europe apply with equal force to this country.

America needs a spiritual awakening. America needs a revival nation-wide and the world needs it world-wide, a revival of genuine, unadulterated character-making religion, the religion of Christ.

There can be no safety for business, for peace, for world harmony, except it be founded on a spiritual regeneration of mankind.

The bankers gathered at Atlantic City dedicated themselves to a united effort to attain and maintain these higher ideals of moral and spiritual regeneration as the only basis on which human society can soundly rest.

All honor to the men who wrote that report, all honor to the men who voted in favor of it and all honor to every American banker who honestly dedicates his life to a cause so supremely good.

Bankers have a tremendous influence for evil or for good. They can help to establish or destroy the moral and spiritual forces of the community in which they live.

The banker who disregards character in the making of loans lowers the moral tone of his directors, his clerks and his community.

The banker who seeks to make a personal profit by a side commission for the loans he may be able to place for his customers, or makes usurious charges, is planting the seeds of hatred of banking in the hearts of his customers.

The banker deals with the money of his community, its aggregated tangible wealth in the shape of money is deposited in his care as a trustee. He must use it for the good of his depositors as well as for the good of his stockholders.

No bank ought to accept a deposit until the prospective depositor's character has been passed on. There was once a bank in New York, we hope it still maintains that standard, which so carefully guarded its depositary accounts that the man who could give a check on that bank was generally accepted as being a man of integrity. The bank which receives deposits from known violators of the law, the prohibition law or any other, or loans money to known law violators, the bank which regards the collateral of more value than the character back of the man who owns the collateral is a distinct force for the breaking down of the moral tone of a community.

No banker who does not stand foursquare to every wind that blows on all of these

points can possibly conscientiously promise to dedicate himself in accordance with this proclamation of the American Bankers Association to the development of the idealism of moral and spiritual regeneration not only as the essential basis for the economic recovery of the world, but for the development of those ideals upon which alone business itself and all civilization can rest with any degree of safety.

The American Bankers Association has lifted high above all petty questions of politics, of economics, of ordinary business problems, the one great outstanding, all-embracing truth that for the safety of business and for the safety of civilization, the world needs, and must have, a world-wide moral and spiritual regeneration. That such a statement has been sent forth by the Bankers Association will strengthen every moral force of this and every other country. It is a sign of the times.

The Kansas Guaranty Law

In the August issue of this magazine there appeared an article, "Kansas Guaranty Certificates," by Charles F. Scott, editor of the Iola, Kan., *Register*, in which he discussed the law providing that deposits in State banks shall be guaranteed under State law.

The JOURNAL has received several letters from persons in Kansas criticizing the article in general terms. In each case we have invited the writers of the letters referred to above to specify any inaccuracy, misstatement or unfairness in Mr. Scott's article; furthermore, in each case, we have cordially invited each writer to give us, for publication, any statement of fact relative to the Kansas Guaranty Law operation which he might see fit to prepare. Up to the time of going to press we have not received any specification of inaccuracy or unfairness, nor any statement of fact, from which we conclude that there is nothing to give.

The JOURNAL has no bias whatever in this, or in any other, matter, but it is its bounden duty to present all the facts possible on banking plans and operations such as the guaranty idea, to the end that bankers may possess the information necessary to enable them to see their courses clearly, and to the end, also, that the people may have such facts as will enable them to decide intelligently in giving or withholding their support of measures regarding the safety of their savings.

Mr. Scott, the writer of the article referred to, is a man whose standing in the State of Kansas should entitle his opinions to respect. His vocation places him in a position for accurate observation and gives him extraordinary means for research.

His legislative experience and his love for his own State add to the authority of his statements. He was a member of the Kansas Senate from 1892 to 1896, a Presidential Elector in 1896, a member of Congress during the 57th, 58th and 59th Sessions of Congress, and was Congressman-at-large for Kansas during the 60th and 61st Congresses. Mr. Scott is an Ex-Regent of the University of Kansas. During 1917 he was acting President of Emporia College.

"Mercantile Service"



Departments: Banking Bond Corporation Real Estate Loan
Real Estate Public Relations Safe Deposit Savings Trust

Mercantile Trust Company
 Member Federal Reserve System
 EIGHTH AND LOCUST
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In view of Mr. Scott's wide experience in legislative and public affairs, and in view also of the fact that up to the present time there has been no specific charge of any inaccuracy, or unfairness or misstatement, it is to be assumed that Mr. Scott has not done an injustice to the people of his State. Incidentally the Kansas State Bankers Association, whose Executive Committee has taken exception to his portrayal of the misleading nature of the guaranty law, is not affiliated with the American Bankers Association. There are two State associations in Kansas: The State Bankers Association, which is affiliated with the American Bankers Association, and the Kansas State Bankers Association, which came into being when the guaranty law was passed.

Artificial Silk

"The Japanese disaster, which involved the destruction of about 29,500 bales of raw silk in Yokohama, entailing losses of between \$25,000,000 and \$30,000,000, calls attention to the enormous expansion in the manufacture of artificial silk in the United States. Production this year will probably be 50 per cent larger than in 1922, twice that of 1921 and more than four times the output of 1920. The greatest use of artificial silk is in the hosiery and knit goods trade. Most silk sweaters and knit silk dresses are made of artificial silk, and these two lines absorb between 40 and 50 per cent of the total output."—Irving Bank-Columbia Trust Company Review.

Does Your Town Need A New Hotel?

Scores of cities, large and small, have secured new, modern hotels through the employment of the Hockenbury plan of community hotel finance.

Where? Well, here's a list:

Syracuse, N. Y.	Corry, Pa.
Johnson City, Tenn.	Ypsilanti, Mich.
Las Vegas, N. M.	Astoria, Ore.
Santa Barbara, Cal.	Union, S. C.
Ocean City, N. J.	Winfeld, Kans.
Fayetteville, N. C.	Gardiner, Mass.
Burlington, N. C.	Seattle, Wash.
New Britain, Conn.	Frederick, Md.
Michigan City, Ind.	Salem, Mass.
Petaluma, Cal.	Effingham, Ill.
Northampton, Mass.	Norfolk, Neb.
Alhambra, Cal.	Tacoma, Wash.
Mt. Sterling, Ky.	Suffolk, Va.
Niagara Falls, N. Y.	Bedford, Ind.
Bridgeport, N. J.	Urbana, Ill.
Minneapolis, Minn.	Beatrice, Neb.
Shelbyville, Ky.	Cynthiana, Ky.
Williamsport, Pa.	Oklmulgee, Okla.
Jamestown, N. Y.	Superior, Wis.
Port Jervis, N. Y.	Perry, N. Y.

Ask banker friends in these towns of the worth of our service. Ask them if there would have been a new hotel *without* the Hockenbury plan.

Or, if you prefer first-hand evidence of what other cities are doing, ask us to place your name on our list to receive each month a copy of **THE HOTEL FINANCIALIST**; it's free to members of The A.B.A.

The Hockenbury System Incorporated
Penn-Harris Trust Bldg., Harrisburg, Penna.

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We have a few openings on our sales force that mean real opportunity. Our line embodies various advertising specialties in leather, paper and novelties, a line appealing particularly to banks. Remunerations based entirely upon ability. Aggressive salesmen earning from 250.00 to 600.00 per month. For particulars, address sales manager.

THE BRODERICK COMPANY, ST. PAUL, MINNESOTA

English Bank Policies

(Continued from page 308)

2. Affiliated banks operating outside the United Kingdom and Ireland in which the National Provincial and Union Bank has a controlling or important interest:
Bank of British West Africa—Date of organization, 1894; paid-up capital, £1,200,000; percentage held by National Provincial and Union Bank, 11 per cent; date of acquisition of interest, 1920.
3. Interlocking directors in other important institutions operating overseas:
Through extraordinary directors—Banque Belge pour l'Etranger (London committee); Union Bank of Australia.
Through other directors—Bank of Australasia; British Italian Corporation; Chartered Bank of India, Australia, and China; Commercial Bank of Spanish America; London and Brazilian Bank; National Bank of New Zealand; Peninsular and Oriental Banking Corporation; British Trade Corporation.

E. Westminster Bank

1. London County Westminster and Parr's Foreign Bank.
Branches—
Belgium—Antwerp, Brussels.
France—Bordeaux, Lyons, Marseilles, Nantes, Paris.
Spain—Madrid.
Date of organization, 1913.
Capital—Subscribed, £2,000,000; paid-up, £1,080,000.
Percentage of capital held by parent bank, 100 per cent.
2. Affiliated banks operating outside the United Kingdom and Ireland in which London County Westminster and Parr's has controlling or important interest:
Bank of British West Africa—Date of organization, 1894; paid-up capital, £1,200,000; percentage held by Westminster Bank, 11 per cent.
3. Interlocking directors in other important institutions operating overseas:
Through chairman or one of the deputy chairmen—British Italian Corporation; Chartered Bank of India, Australia, and China; Peninsular and Oriental Banking Corporation.
Through other directors—Bank of Roumania; Colonial Bank; English, Scottish, and Australian Bank; Hambro's Bank; Hongkong and Shanghai Banking Corporation (London committee); Imperial Ottoman Bank; London Merchant Bank; Standard Bank of South Africa; Union Bank of Australia.

Line of Cleavage in Foreign Policy

WHY, then, does the Midland Bank consistently follow the policy of transacting its oversea business exclusively through foreign agency and correspondent banks? Why do the remaining banks in the "Big Five" group, in addition, maintain foreign subsidiaries, and acquire and hold a stock interest in affiliated oversea institutions? Certainly the explanation does not lie in any different type of business undertaken throughout the Empire or in other countries, for the wide range of services offered importers and exporters by each of the "Big Five" does not greatly differ from bank to bank.

During last winter it was my privilege to discuss these problems with many leading bankers in London, who were exceedingly generous in expediting certain financial investigations undertaken for the Department of Commerce. In what follows a summary and analysis of their points of view are attempted.

In keeping clear of "foreign entanglements," the Midland Bank is following a well-considered policy in contrast with its chief competitors. This is no more a line of cleavage between the Midland Bank and

the others among the "Big Five" than it is a difference of opinion among prominent bankers. The late Sir Edward Holden, chairman of the London Joint City and Midland Bank, and his successor have been the chief exponents of the policy of their bank, and although the consensus of opinion seems against them, there are directors of other banks who hold to their view, or who would at least oppose a further extension of their banks' direct foreign interests.

Midland's Reasons

THE Midland Bank has followed an independent course for the following reasons:

(a) The organization of subsidiary foreign banks, or the direct establishment of foreign branches, is held to involve the usual responsibilities of local deposit and commercial banking. The taking of deposits in foreign countries commits a bank to the legitimate accommodation of its clients. Experience has shown, it is stated, that these clients are readily attracted by the more speedy and efficient service of British banks in the ordinary transactions touching the depositor. The foreign business is for this reason profitable in times of comparative stability, but has elements of great risk when critical conditions increase the demand for credit on the part of firms whose reliability cannot possibly be as accurately ascertained by the British as by the native banker.

(b) Extensive agency relations with foreign banks throughout the world have confirmed the Midland Bank in its policy of avoiding competition in the territory of its correspondents. Sir Edward Holden, whose principles the Midland Bank is following today, was the pioneer in acceptance, collection and foreign exchange business among English joint-stock bankers. A considerable business has been built up by reciprocal services with important foreign banks attracted to agency arrangements with this powerful institution, and the Midland Bank enjoys a most extensive foreign-acceptance business.

The present chairman holds that the establishment of branches or controlled "foreign" banks would be costly in its effects on the good will of cooperating native banks, which expect right of way in their own field and a certain amount of exchange and collection business. These close working arrangements enable the bank to meet satisfactorily the needs of its clients. It is maintained that their interests must not be endangered by hazardous, though profitable, new ventures committing the bank to obligations of indefinite magnitude far from its base. This paragraph from the chairman's address at the annual general meeting of stockholders in 1921 states the whole matter succinctly:

We have no branches or affiliations abroad. We have refrained from competing with our foreign friends in their own country and I can not help thinking that we have gained favor in consequence. We have no present intention of deviating from this policy, which, besides having the merit of enabling us to extend our relations with foreign banks, gives greater security to our domestic depositors by restricting our activities to the home field.

Corporate Financing

ARRANGED for established, successful enterprises, to provide permanent capital for

EXPANSION
REFUNDING MATURING ISSUES
CONSOLIDATING FUNDED DEBT
FUNDING FLOATING DEBT
ADDITIONAL WORKING CAPITAL
REFUNDING HIGH-INTEREST
RATE ISSUES

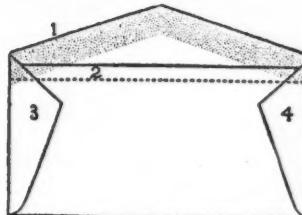
The scope of our Corporate Financing Service includes careful analyses of the operations and financial requirements of each enterprise; the preparation of plans for financing and the negotiating with the appropriate banking source best equipped to promptly accomplish the underwriting.

Our service is rendered for a reasonable charge, previously agreed upon, and to be paid only in the event of the consummation of the sale.

PROPER PRESENTATION TO THE RIGHT BANKING SOURCE IS OF PARAMOUNT IMPORTANCE.

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3,4- ANGULAR OVER LAID SIDE WINGS
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FOR CONTENTS

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Hard to Trace

HOWEVER, the independent policy of the Midland Bank is as much the result of evolution as of close reasoning. A leader among English banks in perfecting agency arrangements overseas, it is natural that it should have hesitated to enter into foreign deposit banking. The advisability of establishing a foreign bank, or branch, in France has been twice considered and as often rejected. Yet it is difficult to say whether the direct competition of other "Big Five" banks in Belgium, France and Spain, or their indirect competition elsewhere by affiliated foreign banks, has led any native banks to transfer their British business to the Midland Bank. Such things are hard to trace. It is maintained that this bank has gained more than its share of new business because of the policy of its competitors, and for this reason it finds an independent course more profitable than might otherwise be the case.

Different Set of Reasons

A DIFFERENT set of reasons has impelled other banks to enter the imperial and foreign fields more directly during recent years. In considering their motives, it becomes evident, however, that they have no intention of expanding indefinitely, losing their essentially domestic character, or absorbing the peculiar functions of other financial institutions. In fact, several prominent bankers hold that the limit of direct extension in foreign fields has been reached for the present at least. The considerations which have favored this extension since the war are as follows:

(a) The demand for facilities from an unprecedented foreign trade and the desire of British bankers to be on hand to profit from an expected continental boom encouraged them to try out the possibilities in this field. Indeed, it is likely that, without the war and the following inflation, the joint-stock banks would not have become very active in adjacent European countries. The anticipated prosperity did not materialize; but it is an interesting fact that the unsettled exchanges and the troubled conditions of Europe have given British foreign branches a considerably greater deposit business than their superior facilities alone would have earned them, while there has naturally been much activity in transferring balances from a less to a more certain currency.

(b) Although foreign banking has been on the whole profitable, it was entered primarily for the accommodation of domestic clients. Earnings have been subordinated to service. Conveniences of deposits, exchange and collection have been provided for British travelers, exporters and importers. Certain acceptance facilities which could not as readily be granted by merchant bankers and acceptance houses have been developed. The general attitude among officials is that they had to offer these services. It is probably more accurate to say that they did not relish losing a part of their clients' business if they could as well undertake it themselves, and in so doing train part of their staff in the technique of oversea banking.

(c) The competition with foreign banks,

therefore, seems more apparent than real. Deposit accounts in France, Belgium and Spain are largely for British firms operating locally, or for native firms in connection with their British business. The same is true of loans and advances. Deposit accounts for foreigners in the local currency and for local purposes are not refused; neither are they solicited. It has been stated that the efficiency of British banking, and conditions on the Continent have brought much business, but the competition does not seem to have been active enough to create open ill will among Continental banks acting as agents and correspondents.

(d) A further reason for the creation of "foreign" banks, and for affiliation with British institutions operating overseas, is the desire to obtain current information from entirely dependable or controlled sources. American banks are not the only ones that suffered from the lack of such information in the boom, and its aftermath of frozen credits, unclaimed goods, and sacrifice sales in 1920 and 1921.

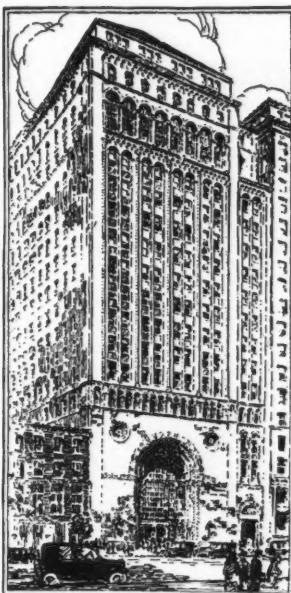
The entrance by four of the "Big Five" banks through their "foreign" banks into the field of foreign banking has not generally gone further than Spain, France and Belgium. If other British banks had not pioneered in Latin America, Asia and Africa, the great banks would doubtless have been compelled, for the benefit of their clients, to establish branches for the purpose of offering ordinary banking services. As it is, the extension of interest in these wider areas has come by way of an affiliation with colonial and other British oversea banks, and mainly for reciprocal business and the exchange of information. The same is true of connection through common directors.

Why Foreign Subsidiary Banks Have Superseded Foreign Branches

THE four banks in the "Big Five" group which maintain direct foreign interests do so for the most part through subsidiary "foreign" banks. These are listed in the foregoing. They are private British limited companies, owned outright by the parent banks. The staff and offices, are of course, entirely separate, but the interests of the main and "foreign banks" are completely merged by interlocking directors.

The "foreign banks" do not serve as oversea departments for the parent banks, for each of the "Big Five" has an active foreign department of its own. The offices of the "foreign banks" are in nearby Continental countries, where they engage in deposit and commercial banking, offer facilities ordinarily required by British traders, and act as correspondents for the parent banks in quite the same way as any closely allied non-British institution might do. There is, therefore, no active competition between the oversea department and the "foreign bank." Moreover, the maintenance of a separate institution simplifies administration, and in theory it diminishes capital risks.

One reason for establishing separate "foreign banks" rather than foreign branches is the desire to escape the burden of excessive foreign taxation. Recent Spanish leg-



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isolation imposed a tax on the entire capital of any foreign bank having branches in that country. This charge restricted and in many cases would wipe out, any profit accumulating from operations in Spain, and as a result the Westminster Bank transferred what remained of its branches in that country to the jurisdiction of London County Westminster & Parr's Foreign Bank (Paris), whose capital is comparatively small. Similar dangers might arise from French and Belgian taxation and are avoided by the organization of separate companies.

There is another and less obvious factor. The moral support of the parent bank is always implied, and for ordinary purposes is much the same for a subsidiary as for a direct branch. Upon opening any new office there is an undertaking to provide for the legitimate needs of the local client, and under no condition can the branch be left unprovided for. On the other hand, it is at least conceivable that in time of great stress the parent bank could abandon its subsidiary by refusing to go beyond a certain point in meeting the demands of its foreign clients. The capital investment in

the shares of the owned bank might be wiped out, but its failure could not directly involve the parent bank, whose depositors would be safe. This is, however, an element of theoretical rather than practical safety.

Services Rendered

THE balance sheets of the "Big Five" give no separate statement of business transacted primarily for the international movement of goods. The "foreign" banks being private companies publish no figures whatever, and estimates would be mere guesswork. However, the item "acceptances and engagements" appearing in statements of the great banks must represent chiefly oversea business. The importance of wide agency relations with foreign banks is reflected in the larger acceptance figures of the London Joint City and Midland Bank, although this is a comparatively small line of business for any of the domestic banks.

Acceptances probably constitute the greater part of the liabilities incurred as "acceptances, indorsements, engagements, etc." Most of the remainder are confirmed credits entered at the maximum figure and transferred to acceptance or other liabilities, as the case may be, when the credit has been made use of.

Acceptances of the joint-stock banks for the accounts of foreign firms or individuals are incurred at the instance of oversea correspondent banks. The liability thereby contracted takes the form of credits granted on account of the agency bank rather than the individual or firm for whom the bill is drawn. This enables the banks to handle with comparative safety a large volume of bills having unknown foreign names. For certain domestic importers—particularly importers of raw cotton—bills are accepted without the mediation of a foreign bank, but this is service to the banks' own clients in stable businesses long financed along clearly marked lines.

The accommodation enjoyed by each foreign correspondent rests upon its working agreement with London. The maximum credits to be opened on behalf of the former's clients may be roughly proportional to the amount of cash deposits with the British bank; or where the arrangement with the agency bank is new, securities may be held as a further factor of safety. Growing demands are met by raising the limits of accommodation and waiving specific guaranties as the correspondent banks prove their complete reliability. In their extensive ramifications the great banks have many trusted foreign correspondents, with whom business is transacted on a basis of entire mutual confidence.

As a general rule, these working arrangements reduce to the minimum competition between the "Big Five" and their oversea agency banks with respect to deposits from foreigners. Individuals or firms desiring to open an account in London are frequently referred to their own banks with the suggestion that the London facilities desired be arranged through a correspondent bank. In a word, the foreign facilities granted by the "Big Five" are generally for, or through their own clients. Overseas, clients are principally banks; at home, individuals, firms and companies.

Creating Acceptances

THE joint-stock banks are, therefore, not only an important factor in the acceptance market, where they are always buyers and lenders (directly and through the bill brokers), but they have also absorbed a share of the business of creating acceptances. Although the profits of this service are split between the London bank and its correspondent, the fees are no higher than those of acceptance houses. The fact that London is still the clearing center of the world has thrown a certain amount of business in the way of the "Big Five," which the natural development of their functions has led them to absorb.

The further services offered through the foreign departments of the great banks are of the usual type. A striking expansion of service by the banks since the war has been the extensive dealing in foreign currencies and bills which, before the war, were principally handled by London branches of foreign banks. Exchange is bought and sold, and the derangement of the world's currencies has caused a considerable development of the market for futures. Moreover, overdrafts are occasionally permitted for foreign clients who are purchasers of British goods, and for whom an immediate settlement would involve heavy losses through exchange. Exchange problems are simplified for domestic clients by bookkeeping services permitting the deposit in agency banks, on their account, of amounts due from foreign firms and held in foreign currencies. Securities are also purchased on foreign order.

Outlook for Joint-Stock Banks and Private Bankers

THE interest of the "Big Five" in foreign business is largely a development since 1905. Rapid expansion of facilities did not occur until the war period and the years immediately following. Since 1914 the joint-stock banks have been steadily gaining on the private houses in the relative importance of their foreign exchange transactions. It is probably a safe estimate that in 1914 approximately 10 per cent of the acceptances in London were made by the "Big Five," and that at present they are responsible for at least 30 per cent. As to this, there is much difference of opinion, and accurate figures are not obtainable. Other estimates place the share of acceptance business now controlled by the joint-stock commercial banks at a higher ratio.

This does not mean that the domestic joint-stock bank is encroaching upon the peculiar functions of the acceptance house and the private bank. The most cordial relations exist between them, and there are undoubtedly certain types of service in which the commercial bank will always defer to the superior facilities of the merchant banker. Many directors in the "Big Five" banks are also partners in private firms, and it is universally admitted that the bill brokers, issue and acceptance houses among the latter are a permanent and essential factor in the London mechanism.



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Texas Guaranty Fund Has Paid \$10,000,000

Permanent Fund Has Never Been Exhausted, Nor Has the Maximum Assessment Ever Been Levied. Present State of the Fund. A Comparison With the Federal Reserve Requirements. Recent Amendments Enacted to Strengthen the Plan.

By T. P. PRIDDIE, JR.

Vice-President Peoples State Bank, Houston; Formerly Deputy Banking Commissioner, Texas

IN the minds of some of the leading State bankers of Texas, the articles which are appearing spasmodically in financial journals, on the guaranty fund plan, are doing an injustice to the state banking system of Texas.

The principal cause of the articles at this time appears to be the collapse of the plan in Oklahoma.

It is not my intention to engage in any controversy with any system or individual, but as it is likely that our law is misunderstood in other states, it is thought pertinent and proper to give a resumé of the law and the manner in which it has operated.

The JOURNAL of the AMERICAN BANKERS ASSOCIATION is selected for this article for the reason that it is our periodical and, we think, is the best medium.

Prior to 1906, the State of Texas had no banking policy. In that year the legislature authorized the establishment of state banks, under the usual conditions—capital stock paid up in cash; the double liability of stockholders; proper supervision of a regularly established department requiring examinations; reports, etc. The panic of 1907 created such an unsatisfactory condition that the leading bankers and legislators of Texas felt that a guaranty fund should be provided. In 1909, the guaranty law was enacted and became effective January 1, 1910.

Since that time it has been continuously in operation with very few amendments. No politics have ever entered into its administration. The fund has not been made a football of politicians, nor has any scandal ever been connected with the handling of the fund. The guaranty fund has successfully withstood the depression of 1914, as well as of 1921-23, having paid since its inception to the protected depositors, in round numbers, the sum of \$10,000,000, without at any time impairing its permanency; without exhausting its assessment resources; without issuing any deficiency warrants, and without at any time having been financially embarrassed or handicapped.

Reimbursement Feature

MUCH has been said and written concerning the Oklahoma law. It appears that this law was defective and not framed to meet an emergency. It appears, too, that the highest permanent fund they could create was \$500,000. The collapse of

a large bank in Seattle, Washington, which some articles say broke the fund in that State, has been cited as an example of the unsoundness of the guaranty fund idea. The last annual report of the Commissioner of Banking of the State of Washington appears to disclose that the failure of that large bank will not cost the guaranty fund of the State of Washington anything. The trouble with the opponents of the guaranty fund idea is that they forget that while the guaranty fund may be called upon to pay out promptly a considerable volume of money, at the same time the guaranty fund is reimbursed through the assets of the failed bank, which includes the stockholders' assessments, and ultimately the final loss may be small.

Attention has been directed in some articles to what are called enormous losses in North Dakota. These amounts paid out are not ultimate and final losses, but, even though they were, the cost might be well charged off in order to stabilize banking conditions.

Attention has been called also to the fact that the legislature of Nebraska reduced the maximum assessment, which in the opinion of the writer of that particular article, was a practical repudiation of the idea. I am not familiar with the laws of other States nor the conditions and circumstances prevailing. I simply make reference to these cases as a preface to the statement that the guaranty fund law of Texas cannot be compared with the laws of other States. Certainly it is improper and unjust to compare a perfect instrument with an imperfect one. The guaranty law of Texas, in the light of its achievement, must be considered as perfect in that it has to the fullest possible extent, met the purpose for which it was passed.

How Fund Is Raised

THE law provides that a bank shall make an annual contribution to a permanent fund of one-quarter of one per cent of its average daily deposits, exclusive of public or savings deposits.

One-fourth of this contribution is forwarded to Austin, Texas, and held as cash in the state treasury, subject to the order of the Banking Board.

The remainder—three-fourths—is left on deposit with the individual bank, subject to the check of the Banking Board. The

Banking Board has never, within the knowledge of the writer, checked on one of these accounts.

The law originally provided that when the permanent fund shall have reached a total of \$2,000,000—which would be \$500,000 in cash in the state treasury and \$1,500,000 on deposit in the several banks—that no annual contribution would thereafter be made, except in the case of new banks.

This maximum was reached in 1920, and in that year no contribution was made. In 1921, the legislature, however, increased this maximum fund to \$5,000,000 and contributions have continued so that the fund now stands in round numbers, \$3,300,000, divided in the manner provided by law. This fund is the property of the several banks. It represents in each case the bank's "Interest in Depositors Guaranty Fund." When a bank leaves the system, liquidates, or its charter is forfeited for any reason, the bank's share in the fund is returnable to the bank.

In addition to providing a permanent fund, the law provides that in the event of the permanent fund becoming depleted, or in order to meet an emergency, an assessment not to exceed two per cent of the average daily deposits of a member bank, excluding public and savings deposits, may be levied to restore the permanent fund or to meet an emergency. This provides additional resources in any one year of approximately \$5,000,000, which gives the guaranty fund of Texas minimum resources in any one year of approximately \$8,500,000. This maximum assessment has never been levied, not even during the serious depression of 1920-21-22.

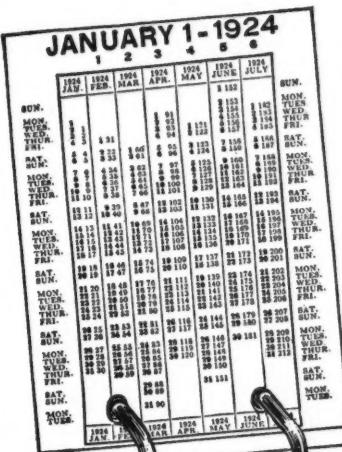
Total Payments

FROM the beginning of the law in Texas, January 1, 1910, to November 1, 1920, the guaranty fund banks had been called upon to pay for the protection of depositors in defunct banks the total sum of \$835,000, of which over \$500,000 was returned to the paying banks through liquidation of the defunct banks. This will make a maximum loss over the first ten years, in round numbers, of \$300,000, or a per annum cost of \$30,000, or a per bank cost of about \$40 per year.

In November 1920, a failure occurred. This was followed by other failures until, (Continued on page 338)

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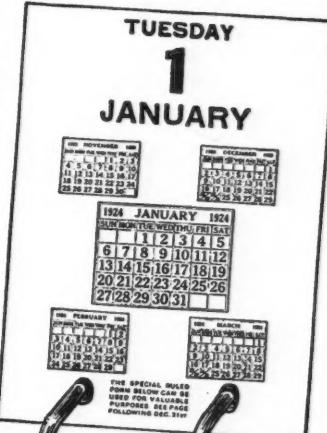
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- 4—1 month from date? Fri., Feb. 1st, 1924 (31 days)
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Texas Guaranty

(Continued from page 336)

up to the present time, over fifty banks have closed. Some of these have been reorganized and reopened; others have either been fully liquidated, or are in process of liquidation. Other institutions have also failed in this State, as well as in other States.

Since November, 1920, the state banks have been called upon to pay about \$10,000,000 for the protection of depositors of defunct banks. This total has been met by the member banks, without, as has been stated, exhausting the assessment privilege, and without impairing the permanent fund, which is now in excess of \$3,000,000. The guaranty fund banks, on June 30, 1923, were carrying on their ledgers an assessment account of less than \$5,000,000 of the \$10,000,000 required, which indicates that a considerable portion has been repaid through liquidation of the defunct banks.

The Department of Banking at Austin still has nominal assets of \$8,000,000, which when liquidated will be returned to the member banks. Only recently the Department of Banking has returned to the member banks \$500,000 and the department states that before the first of the year an additional dividend of \$1,000,000 will be paid.

The idea in the minds of framers and advocates of the guaranty fund law was to protect the citizens of Texas against loss, in the event a bank operating under the State charter should fail. Generally, within ninety days after the closing of a bank—never later than four months—the protected depositors have received one hundred cents on the dollar in every bank which has failed, operating under a State charter in Texas, since the enactment of the guaranty fund law. We know, therefore, that Texas, through its chartered banks, has saved these depositors, over 100,000 in number, \$10,000,000. The final loss to the member banks will, in the opinion of the writer, be less per annum than the loss in interest on daily balances through membership in the Federal Reserve System.

WITHOUT prejudice, and simply for comparative purposes, to show that membership in the guaranty fund system of Texas does not cost any more than membership in the Federal Reserve System, the following figures are given:—

A bank having \$1,000,000 deposits will be required, if it is a member of the Federal Reserve System, to keep approximately \$100,000 with the Federal Reserve Bank as reserve, on which it receives no interest. Figuring this, at 2½ per cent the loss would be, in round numbers, \$2,500 per year, over a period of ten years \$25,000.

Figuring the assessments in the last three years and without a recurrence of the same conditions in the next seven years, but taking normal conditions, the cost to a bank with \$1,000,000 deposits would not exceed \$10,000 for the next ten years.

The promptness with which the guaranty fund has met its obligation during the recent depression has been a factor in reducing the nervousness of the depositing public and has been the direct means of preventing the wrecking of numerous financial institutions. The law, more than any other

one factor, with the possible exception of the Federal Reserve Bank, has stabilized banking conditions in Texas. It is admitted, too, that among the banks which the law has saved from failure there are several which are not operating under the plan.

Texas was exceptionally unfortunate, just prior to the period of depression to have developed an oil field in Western Texas. Mushroom growth was experienced, millionaires were made over night; land and property previously worthless suddenly became worth hundreds and thousands of dollars per acre; deposits of banks which prior to the boom did not exceed \$100,000 went into the hundreds of thousands and a condition existed for which there was no precedent. The depression caught that section of the State at its highest peak of inflation and over \$5,000,000 of the \$10,000,000 required has been paid, on account of the situation existing in Western Texas. Using the town of Eastland, Texas, as a center, draw a circle with a radius of fifty miles, and within that territory over \$5,000,000 was paid. Excluding that small area, Texas as a whole has not been as hard hit as the figures might seem to indicate.

WE have seen that the guaranty fund law of Texas has withstood the test, paid off promptly, and fulfilled its purpose of protecting the depositors immediately and fully without at any time exhausting its resources or issuing deficiency warrants, but the question naturally arises, What is the banker's viewpoint and how has it served the banker?

A few banks (not many banks as some periodicals state), have converted into the national system. It is also true that a few national banks have converted into state banks. In 1922, the then Commissioner of Banking, Hon. E. Hall, called a meeting of the guaranty fund bankers in Waco. Sixty per cent of the banks were represented. Some amendments to the law were recommended. The meeting unanimously endorsed the guaranty fund plan. In 1923, another meeting was held in Ft. Worth, at which time it was decided to incorporate an association known as "Texas Guaranty Fund Bankers," which would have for its purpose the furtherance of the interest of the several members. Due to excessive rains, washouts on railroads, etc., the attendance was only 40 per cent. The guaranty fund was also endorsed in that meeting. These two meetings held during and after the time of trial indicate the attitude of State banks of Texas toward the guaranty plan. It is admitted, however, that there are a few who are dissatisfied, for it is not within the scope of human ingenuity to please all people.

The growth of the state banking system of Texas has been phenomenal. The proportion of increase has not been equalled under any other system that the writer has been able to find in financial history. In 1910, there were 409 banks which qualified under the guaranty fund law. Their total deposits were \$50,000,000, the total resources, \$72,000,000, total capital, \$16,000,000, total surplus and undivided profits, \$2,750,000.

Thirteen and a half years later, that is, on June 30, 1923, the State banks numbered 956, total deposits approximately, \$250,000,000; total resources, \$330,000,000; capital, \$43,000,000, and undivided profits, \$19,000,-

000. During that period the majority have paid handsome dividends.

Some opponents of the guaranty fund state that it encourages loose, speculative, unscrupulous and dishonest bankers. The records actually disclose that the losses in state banks of Texas, through dishonest, unscrupulous and reckless banking, as well as by officers and employees of banks, through unlawful acts, have been less than in any other system or plan of operation in Texas, during the life of the guaranty fund, or even during the past three years, which in my opinion, explodes the theory.

EVERYONE admits that the last three years have been very unsatisfactory in every line of business. It was found, during the complications which have arisen, in this period, that the banking laws of Texas could be strengthened without decreasing the efficiency of the guaranty fund. Therefore, at the last sessions of the legislature, several amendments were adopted. The Department of Banking was separated from that of Insurance, providing a separate and distinct department which supervises only the banks. Another amendment definitely defines public funds and states that these would in no event be protected by the guaranty fund.

An amendment was adopted also, providing that any one who, having a deposit not protected by the Fund, should convert such deposit within ninety days prior to the failure of a bank to a protected deposit, would not participate in the protection of the fund. Another amendment provided that no deposit made by a creditor for the purpose of converting a loan into a protected deposit would receive the protection of the guaranty fund. (A creditor or depositor not protected by the fund still has a pro rata claim against the bank's assets.) There was also enacted a law prohibiting the establishment of any private banking concern.

The guaranty fund does not take away from any depositor or creditor any rights which he might have. In other words, the guaranty fund does not become a preferred creditor in a defunct bank; instead the fund pays off the protected depositor and takes his place and as dividends are paid out of the assets of the bank, the guaranty fund receives its pro rata. The fund becomes a common creditor along with the other creditors of the bank.

The state banks of Texas offer to depositors a capital stock paid up in cash, the double liability of stockholders, the supervision of a regularly established department of the state government, and a guaranty fund which protects and pays. The state banking laws have stood the test and should comparison be resorted to, we feel that it would stand that test also, for we pay our depositors promptly, in any and all events, standing on our record.

We feel that our record is unsurpassed, that we have demonstrated the soundness of our law, and, regardless of what others may have done, we have met the emergency and have not been found wanting, keeping our resources unimpaired. We feel that Texas should be congratulated in protecting its citizenship against loss. A man insures his house against fire; his property against theft; the state banks of Texas insure his deposit against loss, with no cost to the beneficiary.

Three Dangerous Trends

(Continued on page 322)

than other classes. Farmers paid \$624,000 taxes in 1913 and \$1,436,000,000 in 1922. Meanwhile the taxes levied on the rest of the community increased from \$1,570,000,000 to \$5,625,000,000 in 1921. Thus, the board points out, it might be claimed that while the non-farming part of the country has been forced to increase its contribution to Government \$4,055,000,000 above that in 1913, the farmer's burden was at the same time enhanced only \$812,000,000.

"It must be realized," says the report, "that taxes stated in dollars do not express the degree of burdensomeness or the capacity to pay. The board's figures demonstrate that as related to income the farmer's burden is heavier. The ratio of taxes to income in 1913 was 10.6 per cent for farmers as compared with 4.1 per cent for the remainder of the community. By 1922 the ratio was 16.6 per cent for the farmers while that for the remainder of the community was 11.9 per cent."

Darkened England

(Continued from page 310)

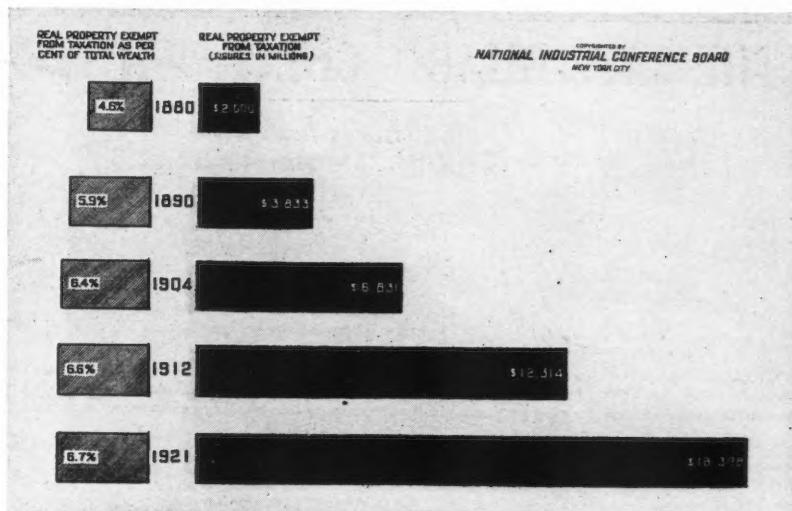
works employing nearly 50,000 men from the making of armaments to the making of agricultural implements, locomotives, bicycles, motor cars and typewriters, and endless other things, and increase the number of its employees, it seems plainly evident that for these things there must be a profitable demand; and this demand is not confined to Germany.

And the same is true of the industries of France and other countries. The chaos that we read about is very largely a governmental and currency muddle, and of newly created national egos, and while I will not say it is little more, it is beyond question that its importance and effect have been fantastically exaggerated. The social and economic ramifications of the currency muddle are both wide and deep. But the printing of billions of paper money can neither increase nor decrease, neither greatly raise nor destroy the real wealth of an industrial nation.

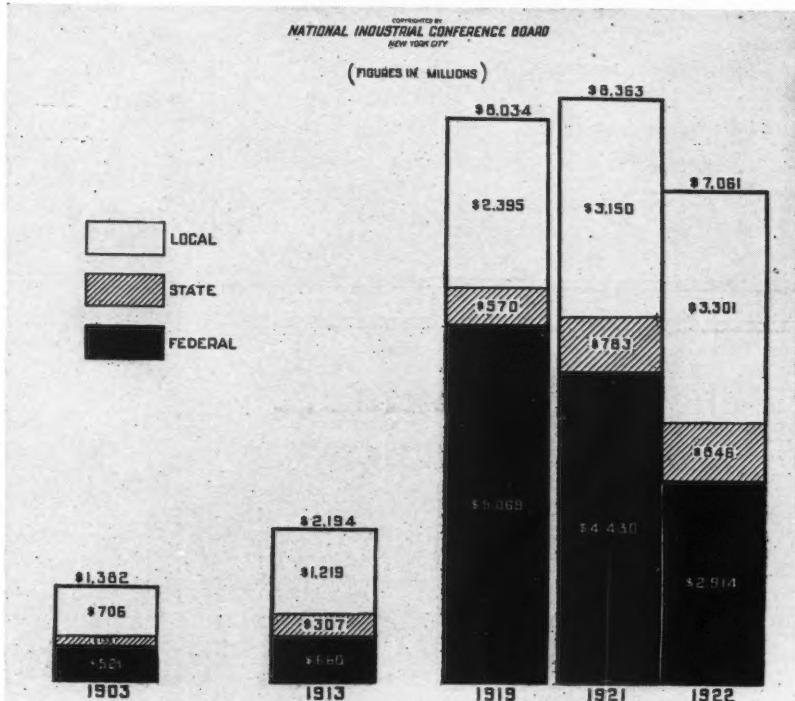
And so, for one, I do not look for any rapid "recovery" in Europe, if only for the simple reason that there is not a great deal, abnormal or subnormal, to recover from. The larger part of Europe now moves on in its old, accustomed way. The isolation of Russia and the arbitrary breaking up of highly perfected natural economic units, like the Austria-Hungary Empire, have probably had a greater disturbing effect than inflation, or conceivably even the war itself. The results at Versailles probably wrought more havoc than all the armies of Germany, and it is rather the healing of political and economic than war wounds that is required; and all this will take time.

Gold and Silver Inquiry

ANNOUNCEMENT has been made of the appointment of Dr. John Parke Young of California as Economist to take charge of the investigation of foreign currencies and exchange rates, in connection with the Senatorial Commission appointed



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to conduct an inquiry into gold and silver industry.

Dr. Young goes to the Commission from the Economics Department of Princeton University. He has had broad experience in investigation, conducted in foreign countries, of currency and exchange conditions. He is the author of a book on Central American finance now in the process of publication. During the war period he was an examiner with the Federal Trade Commission engaged in economic work in connection with the iron and steel investigation. Dr. Young is a graduate of Occidental College, Los Angeles, Cal., and holds his A.M. from Columbia University and his Ph.D. from

Princeton University, where he subsequently taught courses in economics in finance.

In the course of the investigation, Dr. Young will confer with economists, foreign exchange bankers, and other experts in the field of international finance.

Among the questions which will be the subject of special study are the following: The large issues of convertible paper money in the different countries, backed by meager metallic reserves; the inflation and deflation of credit and currency; changes in price levels; government debts, revenues and expenditures; foreign trade balances; also the effect of political conditions upon exchange rates.

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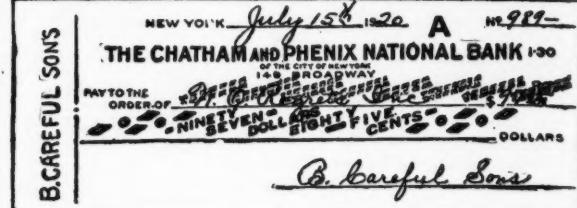
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